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Tripartite industrial co-operation

Study by the UNCTAD secretariat

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INTRODUCTION

(i) The International Development Strategy and the Programme of Action for the Establishment of a New International Economic Order emphasize the need to devote greater attention to those forms of international partnership which are based on the interdependence of interests and thus represent a step beyond the traditional approach to trade and development. Tripartite industrial co-operation is a form of international co-operation at the enterprise/organization level which would appear to meet several major policy objectives established at the multilateral level: namely, assistance for the diversification of production and exports in developing countries; improved access of these products to export markets; interdependence in production and stability in international trade flows; ad hoc international co-operation in sharing the burden of development financing. Such co-operation would also permit the appropriate linkage of a broad range of policy objectives covering production, trade and aid, especially through schemes allowing for the repayment of credits by developing countries in the output resulting from co-operation contracts.

(ii) The work programme of UNCTAD in the field of trade and economic co-operation between countries having different economic and social systems, with a view to deepening and expanding a stable and mutually advantageous division of labour, was laid down in Conference resolutions 15(II) and 53(III). It was, in particular, recommended that countries participating in East-West trade should ensure, through positive measures, that the expansion of trade between them does not unfavourably affect the trading possibilities of the developing countries and leads to expansion of trade between them and the latter.1/ The Board, in its agreed conclusion 99(XIII), felt that the improved world political climate enhanced the scope for a further expansion of trade and economic relations between countries having different economic and social systems and considered that the secretariat should devote more attention to the analysis of issues related to the introduction of long-term and large-scale arrangements in trade and economic co-operation among these countries.2/

(iii)At the first part of its fourteenth session, the Board considered a report on "Motivations, patterns, problems and prospects in industrial co-operation between enterprises of socialist and developing countries" (TD/B/490 and Corr.1 and TD/B/490/Supp.1 and Supp.1/Corr.1) which included a chapter presenting the tentative findings of a research project on tripartite industrial co-operation. In its agreed conclusion 112(XIV), the Board recognized that, in view of the considerable expansion and diversification of trade and economic relations between countries having different economic and social systems, priority should be given by UNCTAD to well-defined topics supported by appropriate research documentation prepared by the secretariat, and recommended for further consideration, inter alia, the topic of

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1/ Conference resolution 15 (II), part A, paragraph 2, and Conference resolution 53 (III), part IV paragraph 2.

2/ Agreed conclusion 99 (XIII) of the Trade and Development Board, paragraphs 7 and 9.

identification of future possibilities for economic co-operation in specific areas, with a view to developing geographically larger co-operation and specialization schemes and that of ways and means of promoting industrial co-operation, including tripartite industrial co-operation.1/ In the consultations leading up to the adoption of this agreed conclusion, it was felt that it was necessary to direct such research to the effective experience and the practical problems involved with a view to helping governments in assessing the scope of multilateral industrial co-operation between countries having different economic and social systems. Finally, the Board invited the Secretary-General of UNCTAD to convene a seminar of experts to examine ways and means of promoting industrial specialization through various forms of multilateral co-operation and to report to it on the results of the seminar.2/

(iv) More recently, the General Assembly, at its seventh special session in resolution 3362 (S-VII) on development and international economic co-operation, acknowledged that the efforts undertaken by UNCTAD on tripartite co-operation between countries having different economic and social systems could lead to constructive proposals for the industrialization of developing countries.3/

1/ Agreed conclusion 112(XIV) of the Trade and Development Board, paragraphs 9-10.

2/ Ibid., para.12.

3/ General Assembly resolution 3362 (S-VII), Section IV, para.5.

Chapter I

BACKGROUND AND METHODOLOGY

Definition of tripartite industrial co-operation

1. International co-operation between more than two enterprises from countries having different economic and social systems can materialize through various forms of multi-partite deals.1/ Tripartite co-operation, which is one of them, seems to be of particular interest in view of its intrinsic advantages especially in the framework of changing world economic conditions. In particular, it permits the extension to the developing countries of the profitable impact of growing East-West trade and economic co-operation.

2. International tripartite co-operation at the enterprise/organization level between countries having different economic and social systems is not confined to the industrial sector. Successful tripartite projects have been undertaken or are being negotiated, or could be envisaged for future co-operation, inter alia, in the fields of agricultural production 2/and research and infrastructural development. Yet the promotion of industrialization as a means of accelerating economic development and of restructuring the economy is a major concern of the developing countries. The development plans of most developing countries, in line with the International Development Strategy, have envisaged relatively faster rates of growth for manufacturing output than for total output.3/ The importance attached to industrialization, together with the dynamic effects of international industrial co-operation on foreign trade, explain the concentration in this study on the issue of tripartite industrial co-operation. This approach is further supported by the importance of East-West industrial co-operation, which is the most dynamic component in contemporary economic relations between socialist and developed market economy countries, to the prospective interests of the developing countries.

1/ Recent examples of multi-partite inter-enterprise co-operation, other than the tripartite form of such co-operation, are: the oilfield build in Northern Rumeila, Iraq, with Soviet and Hungarian assistance and the co-operation of the German Democratic Republic and Czechoslovakia in the set up of a pumps factory at Berrouaghia, Algeria.

2/ An example of tripartite co-operation designed to solve acute food problems through the expansion of the agricultural sector in developing countries can be found in the joint Hungarian-United States enterprise established in Switzerland for the development and introduction of a new corn production method, which is currently negotiating co-operation with an official organization in Kenya.

3/ The Plan of Action on Industrial Development and Co-operation adopted, in March 1975, by the second General Conference of UNIDO, aims at the intensification of international industrial co-operation with a view to increasing the share of developing countries to the maximum possible extent and as far as possible to at least 25 per cent of total world industrial production by the year 2000. This implies that the developing countries should increase their industrial growth at a rate considerably higher than the 8 per cent recommended in the International Development Strategy for the Second United Nations Development Decade.

3. There is yet no generally accepted definition of the term industrial co-operation. In the countries which have most experience in this form of international co-operation, the term is used in a broad and flexible manner, as can be seen from the provisions concerning industrial co-operation in their national legislation.

4. Taking into account the suggestions made as a result of the consideration by the Trade and Development Board of document TD/B/490/Supp.1, the secretariat was induced to adjust its working definition.1/ The new coverage is more extensive and applies, in general, to co-operation at the enterprise/organization level between the industrial sectors of developing, socialist and developed market economy countries. The working definition adopted for this study has a practical purpose and does not reflect any attempt to suggest, at this stage, a normative definition of industrial co-operation with the developing countries.

5. This extension of the coverage of the definition took into account, inter alia, the experience derived from East-West industrial co-operation which has gradually evolved from simpler forms, such as the supply of machinery and equipment to deeper forms of co-operation such as joint manufacturing production. In addition, the adoption of a rather broad definition has the advantage of enabling the secretariat to monitor, through the computer-based information updating and retrieval system developed for this project, ensuing developments concerning the tripartite co-operation projects identified with a view to assessing, at a later stage, the dynamics of industrial co-operation with the developing countries. Finally, a broader definition permits extensive reliance on a more comprehensive approach to such co-operation.

6. The secretariat has identified cases, albeit rather rare, relating to tripartite industrial co-operation in industrialized countries with the substantive participation of developing countries.2/ The present study concentrates more particularly on the experience and the scope of tripartite industrial co-operation in the developing countries. Such direction of attention seems justified in view, first, of the effective possibilities for such co-operation and secondly, of the need to reduce the gap between the industrial sectors of developing and developed countries. As the industrialization process of the developing countries accelerates, the prospects for the organization of tripartite industrial co-operation in more and more developing countries and in industrialized countries will be enhanced.

1/ Document TD/B/490/Supp.1 (para.4) defined industrial co-operation contracts as those which: (a) extend over a number of years ... and which involve more than the straight-forward sale or purchase of goods and services and include a set of complementary or reciprocally matching operations; and (b) provide that the complementary or reciprocally matching operations originate in the industrial sectors of the co-operating countries.

2/ As an illustration of such tripartite industrial co-operation, it may be observed that in 1972 and 1973 the Greek Public Power Corporation contracted the delivery of power units produced through partnership between Greek, Polish and Yugoslav enterprises. Another example, is that of a multinational enterprise which reportedly was planning, with a third party, to submit a proposal for the delivery of equipment to the Soviet Union, from plants located in Brazil, North America and the United Kingdom.

7. The present study has adopted a broad definition of industrial activity, which includes mining and the power industry, taking into account the considerable possibilities for international co-operation that exist in these sectors. However, such activities as the supplying to developing countries by partners in developed countries of machinery to equip, for instance, the agricultural sector or to be utilized in civil engineering construction, or for general education and vocational training purposes, have not been covered.

8. The range of coverage of contributions, during the first stage of tripartite industrial co-operation, may include many phases of the operational cycle extending from development project studies to the supply of machinery and equipment and technical assistance; all are directly relevant to the industrialization process of the developing countries. However, the basic definition - co-operation between industrial sectors of developing, socialist and developed market economy countries - excludes, in the context of this study, the consideration of projects which involve the economy of a developing country, but whose contribution does not directly involve the industrial sector of that country.

9. Depending on the nature of each project and the practices applied by individual countries, tripartite industrial co-operation contracts involve enterprises, on the one hand, and counterpart enterprises, industrial co-operatives, producers' associations or State agencies or departments, on the other. Taking into account the fact that production enterprises are the executive instruments of such contracts, simplified expressions such as "industrial co-operation at the enterprise level" or "inter-enterprise industrial co-operation" have been used throughout this study; these expressions are not meant to imply any preference as regards the parties negotiating such tripartite industrial co-operation contracts. The discussion of the different aspects of the study from an inter-enterprise rather than a macro-economic standpoint should be understood as involving a difference in analytical approach and not as implying a difference concerning the objectives of industrial co-operation.1/

10. A tripartite industrial co-operation project implemented on the soil of a developing country is neutral from the point of view of its impact on the direction and the quality of industrialization of the country concerned, since the relevant contract is concluded with a view to achieving pre-determined targets adopted by the host developing country. The analysis carried out in this study suggests that tripartite co-operation facilitates the implementation of projects for which high priority has been established by the developing country, for example through the utilization of part of a bilateral "tied" credit which, might otherwise not have been applied to such a priority project in view of the specific production specialization of the aid-granting country.

1/ For the discussion of micro- and macro-economic inter-dependence, see TD/B/490/Supp.1, introduction, paragraph (iv).

Policy considerations

11. Tripartite industrial co-operation has begun to develop significantly in recent years. It has developed from, and largely relies on, the experience of bilateral industrial co-operation. The survey conducted by the secretariat found that many of the motives, substantive arrangements, problems and prospects of tripartite industrial co-operation are quite similar in their nature to those which had already been recognized in East-West industrial co-operation, largely through the work carried out by the Economic Commission for Europe.1/ According to existing evidence, Romania was among the first countries which have promoted the tripartite form of industrial co-operation. Discussions on the carrying out of such projects in the developing countries have been held since the mid-1960s in the framework of mixed commissions established under bilateral intergovernmental agreements concluded between Romania and Western countries.

12. Since international trade is the vehicle for the implementation of any international industrial co-operation project, trade and industrialization are conceptually indivisible. In this connexion, it is pertinent to recall that, from the point of view of the legislation of the socialist countries - which have developed legislation applying specifically to international industrial co-operation - the conclusion of an international industrial co-operation contract is assimilated to a foreign trade transaction. Indeed, industrial co-operation is a higher form of international economic relationship which has developed out of traditional trade activities. Moreover, international trade and specialization through industrial co-operation are complementary, as evidenced by the fact that the value of East-West trade conducted under industrial co-operation arrangements is growing more rapidly than that of conventional trade transactions. 2/ In discussing the issue of tripartite industrial co-operation, this study pays particular attention to its effects on the improvement of the pattern of international specialization.

13. The inherent characteristics of tripartite industrial co-operation may be summarized as follows:

(a) It is universal and participation is voluntary. Such co-operation thus makes it possible to take into consideration and to combine the interests of all groups of States members of UNCTAD.

(b) It is flexible. It makes it possible to select, on the basis of the criterion of economic efficiency, the appropriate inputs among those available within a wider geographical spectrum, as well as to select, on the basis of experience, the specific type of co-operation contract that will be most

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1/ See: Analytical Report on Industrial Co-operation among ECE Countries, (E/ECE/844/Rev.1), 1975.

2/ No information is as yet available as regards an over-all quantitative estimate of the trade flows resulting from industrial co-operation. According to a recent official estimate, 6.5 per cent of the foreign trade of Poland with the West in 1971 could be ascribed to industrial co-operation arrangements, and it is expected that the percentage share will triple by 1980 at the latest.

effective for the promotion of a given multilateral industrial project. Moreover, it provides a broad range of options so that the form of industrial co-operation can be adapted to suit a variety of national legal and regulatory provisions.

(c) It is forward-looking, especially since the broadening of the scope of industrial co-operation markets creates the conditions for the implementation of large-scale projects which by reason of production or other constraints, it might not be possible to envisage in a given bilateral context.

(d) Such co-operation directly involves the producers concerned and may provide for the implementation of reciprocal and definite commitments over the medium or long term, and hence develop trade flows over and above those generated by existing trade relations between the interested countries. It can combine the need of the developing countries to formulate stable production and export programmes, with the planning requiremnets of the socialist countries, and the reappraisal of the strategy of the enterprise in developed market economy countries as the latter have been placing greater emphasis on long-term programming of production and investment, based on security and stability of deliveries and outlets. The interlinking of the particular activities of the partners favours stable and lasting international specialization.

(e) The progressive character of tripartite industrial co-operation is increasingly being borne out by a number of international developments in both intergovernmental co-operation and inter-enterprise/organization co-operation.

(f) The development of tripartite industrial co-operation could have a catalytic effect on the elimination of certain divergent elements existing in various national policies, and would assist the international community in its efforts to promote more convergence in trade and economic policies.

Methodology

14. The present study attempts to present and discuss the results of empirical research work. As tripartite industrial co-operation is a relatively new form of international co-operation with the developing countries, practically no source of published information is available concerning either the operational aspects of contracts or the appraisal of experience in implementing such projects. Therefore, the secretariat had to carry out an extensive exercise in order to collect pertinent material.

15. The study was prepared on the basis of factual country reports prepared by qualified economists and nationals of the country involved having particular experience in the field of industrial co-operation between countries having different economic and social systems; information collected through secretariat missions to other countries and the continuous review of developments in trade and economic co-operation has also been used. In addition, account was taken of information assembled during the first stage of implementation of this project,1/ as well as through exchanges of views with the secretariats of the Economic Commission for Europe (ECE) and UNIDO.

1/ See TD/B/490/Supp.1.

16. The detailed material collected pertains to five developing countries, four developed market economy countries and three socialist countries of Eastern Europe which were selected on the basis of a number of criteria including the following:

(a) The experience of individual countries in trade as well as in industrial co-operation and, in particular, in tripartite industrial co-operation projects; and

(b) Coverage of a relatively broad spectrum of forms of economic organization and practices relevant to economic co-operation between countries having different economic and social systems.

17. This information-gathering exercise, which for purposes of convenience will be referred to below as "the survey", had a two-fold objective: (a) to assemble factual data on tripartite industrial co-operation contracts; and (b) to obtain an evaluation of such co-operation by businessmen and officials with direct experience in the implementation of industrial co-operation between countries having different economic and social systems.

It should be borne in mind that the assessment of the outcome and of the scope of tripartite industrial co-operation reflects opinions at a given time, which ranges, depending on the implementation of each country enquiry, from November 1974 to June 1975. This fact, together with the wide variety of detailed information collected for the inventoried tripartite industrial co-operation projects, made it impossible to draw meaningful time trends concerning the nature and content of tripartite industrial co-operation.

18. The material and the views obtained from businessmen and officials with direct experience in the implementation of industrial co-operation between countries having different economic and social systems, and more particularly of tripartite industrial co-operation, were invaluable. In accordance with the usual practice, the results of the survey are presented in aggregate terms, illustrated by characteristic examples or by cases believed to be representative of the over-all experience in this field.

19. Following this background chapter, which defines the concept of tripartite industrial co-operation and outlines its role in the promotion of trade and development, chapter II presents aggregate findings based on retrievals from the UNCTAD computer data record on tripartite industrial co-operation projects. Chapters III and IV are a comprehensive qualitative review of the material obtained through this secretariat survey. In addition, pragmatic and practical ways and means for solving some of the problems which were detected in the course of this exercise are suggested with a view to facilitating more extensive reliance on the integrated and global approach to trade-creating industrial co-operation. Although drafted under the responsibility of the secretariat, most of such suggestions reflect specific proposals by interested parties which were noted during the implementation of the survey. Whereas the focus in chapters III and IV is on the analytical discussion of effective experience, chapter V deals with prospective assessments as reflected in the results of the survey and, more particularly, in compliance with the forward-looking part of the secretariat questionnaire referring to the evaluation of the prospects for tripartite industrial co-operation. Finally, chapter VI outlines possible follow-up activities in support of the project findings and the suggested recommendations.

Chapter II

QUANTITATIVE ANALYSIS

20. For the particular requirements of this project, the secretariat provided for a computer data record designed to hold summarized data on inter-enterprise contracts. The "SIRIUS" 1/ system applied operates with 40 itemized elements of information per contract, which can be retrieved sequentially and listed according to the parameters defined in the "SIRIUS" request.

21. The table below presents a summary tabulation of effective tripartite industrial co-operation projects. In interpreting such figures, it should be borne in mind that in some cases the partner enterprise in the developing country favoured the negotiation of two or more distinct contracts with suppliers of capital goods or basic/intermediate products, without making a formal link to the comprehensive network of arrangements concluded for the realization of the particular project concerned. In such cases, the secretariat used its discretion, on the basis of the information assembled, in order to determine whether such elements were part of, and should be computed under a particular project having a number of facets. 2/

22. The quantitative analysis was undertaken on two levels: first, on the basis of a limited denominator, i.e., on the programme entries for which comprehensive answers were available; secondly, through a series of samples. According to the particular aspect involved, the sampling range of coverage varied between one-sixth and over half of the total number of identified cases. Such an exercise of quantification based on a limited number of cases but believed to be representative of the over-all pattern of tripartite industrial co-operation will be referred to below as "the sample". Evidently, as more data reach the secretariat and are fed into the computer program, the reliability of disaggregated retrievals will be heightened.

1/ "SIRIUS" (Système intégré de recherche des informations utilisant les symboles) is a generalized computer updating and retrieval system developed by the UNCTAD secretariat.

2/ The criteria applied in this respect included: (a) whether the executive partner(s) had one or more focal point(s) in the recipient country. For example, an integrated project in Libya - contracted in March 1973 and expected to be operational as from September 1975 - was computed as one case although it provides for the joint construction of one thermal power plant and one desalination plant; (b) the object of the contracts and their specifications which might indicate whether contributions fall within a broader diversified project; and (c) the timing of negotiations, signature and implementation of contracts.

Table

SUMMARY TABULATION OF EFFECTIVE TRIPARTITE INDUSTRIAL CO-OPERATION PROJECTS

Countries involved	Number of identified[a] cases or projects completed or under implementation
Algeria	6
Argentina	2
Brazil	4
Colombia	1
Congo	2
Dahomey	1
Egypt	6
Guinea	1
India	12
Indonesia	1
Iran	7
Iraq	12
Jordan	1
Kuwait	5
Lebanon	4
Libyan Arab Republic	5
Malaysia	2
Mauritania	1
Morocco	9
Nigeria	5
Pakistan	1
Paraguay	1
Peru	2
Sri Lanka	1
Syrian Arab Republic	5
Togo	1
United Arab Emirates	1
Uruguay	1
United Republic of Cameroon	3
United Republic of Tanzania	1

Table (cont'd)

Countries involved	Number of identified[a] cases or projects completed or under implementation
Venezuela	1
Yugoslavia	23
Zaïre	1
(not specified)	3
Sub-total of participation in projects by individual countries	132
Bulgaria	6
Czechoslovakia	19
German Democratic Republic	11
Hungary	39
Poland	40
Romania	16
USSR	21
(not specified)	1
Sub-total of participation in projects by individual countries	153
Austria	20
Belgium	8
Federal Republic of Germany	36
France	33
Greece	2
Ireland	1
Italy	18
Japan	4
Spain	5

Table (cont'd)

Countries involved	Number of identified[a] cases or projects completed or under implementation
Sweden	6
Switzerland	6
United Kingdom	9
United States of America	15
(not specified)	5
Sub-total of participation in projects by individual countries	168
Total participation by individual countries	453

a/ Identified at mid-September 1975 by or on behalf of the UNCTAD secretariat. The sub-totals for each group are not necessarily equated because (a) several projects involve more than three countries; and (b) in a few cases the information is still insufficient with respect to the exact origin, within a specific group of one of the partners.

23. The total over-all cost of tripartite industrial co-operation projects, either completed or under implementation, was estimated by the secretariat to exceed $21 billion in terms of real value at the time of implementation and $29 billion in current value. 1/ This figure is far from negligible; it represents the equivalent of slightly more than one-eighth of total imports of investment goods by the developing countries during the last ten years (1964-1973) 2/ for which a breakdown by commodity classes is available. 3/

24. A total of 132 cases of tripartite industrial co-operation - either completed or under implementation - have been retained for conversion in the computer data record. These projects were considered to come under the definition applied on this issue and to be sound enough as far as the specific data were concerned. About one-third of the identified cases of tripartite industrial co-operation involved enterprises/organizations of more than three countries.

25. The identified projects involve 33 developing countries in Africa, Asia and Latin America, 7 socialist countries of Eastern Europe and 13 developed market economy countries. The industrial sectors of Yugoslavia, India and Iraq have been the leading partners among the developing countries in tripartite industrial co-operation, followed by the industries of Morocco and Iran. Among the socialist countries of Eastern Europe, Poland and Hungary appear to be the most experienced: these two countries account for more than half of the total involvement of this group of countries, followed by the USSR, Czechoslovakia and Romania. Western Europe occupies a leading position in tripartite industrial co-operation among the developed market economy countries, representing seven-eighths of total participation. Enterprises of the Federal Republic of Germany and of France are reported to be particularly active in this field, followed by Austrian and Italian enterprises.

26. The period of implementation of the identified tripartite industrial co-operation projects is variable although a characteristic concentration (affecting seven out of ten projects) within a period of two to four years was found. The figure below reflects the dynamic character of tripartite industrial co-operation. Two-fifths of the contracts for projects signed during the ten-year period 1965-1974 were entered into during the years 1973 and 1974.

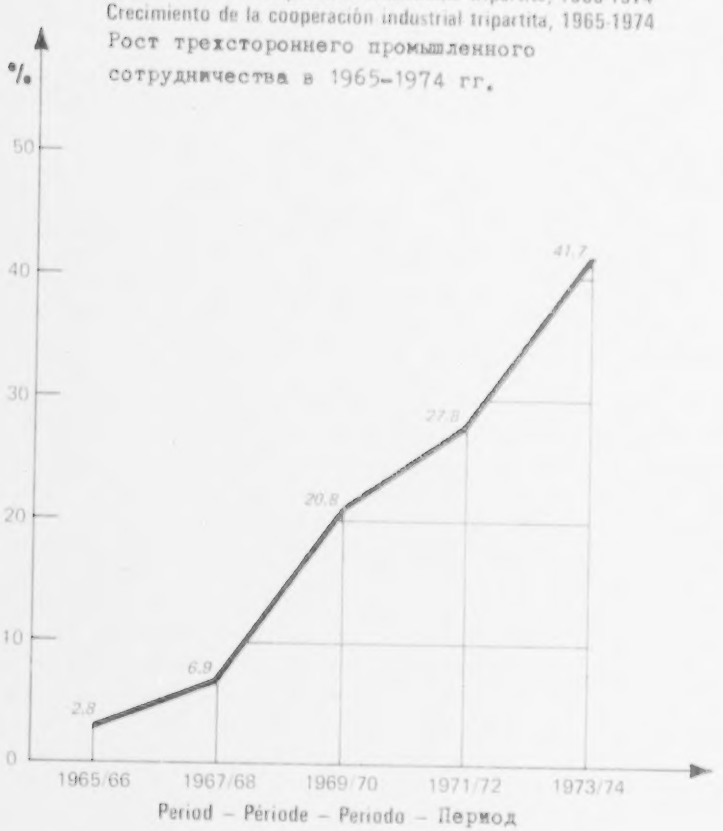
1/ Understandably, the survey resulted in the accumulation of incomplete information on the financial aspects of tripartite industrial co-operation. The secretariat estimate was worked out for the purposes of indicating an area of magnitude.

2/ During the 10-year period 1965-1974, 68 per cent of the identified projects of tripartite industrial co-operation were signed.

3/ Imports by developing countries from the world of goods in SITC section 7, excluding estimated imports of passenger road vehicles and their parts.

Figure 1
Graphique 1
Figura 1
Рис. 1

Growth of tripartite industrial co-operation, 1965-1974
Croissance de la coopération industrielle tripartite, 1965-1974
Crecimiento de la cooperación industrial tripartita, 1965-1974
Рост трехстороннего промышленного сотрудничества в 1965-1974 гг.



*/ Number of contracts signed in period indicated, expressed as a percentage of total contracts signed during the period 1965-1974

Nombre de contrats signés pendant la période indiquée, exprimé en pourcentage du nombre total de contrats signés pendant la période 1965-1974.

Número de contratos firmados durante el periodo indicado, en porcentage del número total de contratos firmados durante el periodo 1965-1974

Количество контрактов, подписанных за указанный период, в процентах от общего количества контрактов, подписанных за период 1965-1974 гг.

27. Another conclusion is that there is a low correlation between, on the one hand, participation in tripartite industrial co-operation projects and, on the other hand, the volume of trade between the countries involved. This divergence, which is particularly characteristic in the most recent years, would indicate an autonomous propensity for co-operation in tripartite schemes of industrial co-operation. Differences in country specialization and production capacities as regards meeting the industrialization requirements of the developing countries, together with government policies in respect to international co-operation, and the role of effective experience in stimulating interest with respect to new inter-enterprise industrial co-operation projects, may be some of the reasons which explain the difference between the pattern of tripartite industrial co-operation and that of international trade. Indeed, there is considerable evidence that, as far as the industrial sectors of developed market economy countries are concerned, the index of concentration is being influenced by dynamic factors inherent in tripartite industrial co-operation. The sample shows that three out of ten enterprises involved in tripartite industrial co-operation, participated in the implementation of six out of ten projects, thus indicating the fruitful outcome of tripartite industrial co-operation.

28. Reportedly, at the time of drafting, 29 tripartite industrial co-operation contracts were under negotiation involving 33 countries. This total includes five developing countries and one developed market economy country which have not yet experienced this form of co-operation, which suggests the broadening of the geographical scope of tripartite industrial co-operation. The countries most frequently involved through their enterprises in such new projects are, by decreasing order of frequency: (a) Algeria, Argentina, Yugoslavia, India and Iran; (b) USSR, Romania and Hungary; (c) France and the United States. In contrast to the tripartite industrial co-operation projects that have been completed or are under way, the projected location of new industrial activities is fairly equally distributed between African, Asian and Latin American developing countries.

29. Any quantification of current negotiations must be interpreted with some caution. However, even allowing for a margin of failure, and assuming that only part of the negotiations will be completed in 1975, the number of current negotiations is considerable especially compared with the figure of 16 identified contracts of tripartite industrial co-operation signed during the year 1974. Moreover, in view of the lively international competition which characterizes developing projects requiring internationally based supplies, it is understandable that the parties concerned avoid advertising a project until the negotiations are fruitfully concluded.

30. The distribution of effective tripartite industrial co-operation projects by industrial activity shows that manufacturing accounted for 83 per cent of such projects; the electric power industry for slightly more than one tenth; and the mining and transport industries each for one-thirtieth.

31. Within the manufacturing sector, the share of the basic, iron and steel industries, together with basic industrial chemicals including fertilizers, was 43 per cent, followed by manufacture of motor vehicles and petroleum refineries with, respectively, 15 and 13 per cent. The manufacture of electrical equipment and

instruments, cement, non-electrical machinery and glass follow in decreasing order of frequency. If classified by divisions of the United Nations International Standard Industrial Classification of all Economic Activities (ISIC), three-quarters of the tripartite industrial co-operation projects engaged in manufacturing are distributed almost equally between the manufacture of chemicals and chemical, petroleum and coal products (35) on the one hand, and basic metal industries (37) and the manufacture of fabricated metal products, machinery and equipment (38), on the other.

32. The area of industrial activity covered by tripartite industrial co-operation projects in each developing country is a reflection of specific targets of specialization or of priorities in the industrialization process of the country concerned, which may also reflect particular advantages in terms of natural endowment or degree of industrialization. Characteristically, the petroleum-exporting countries pay particular attention to the development, through tripartite industrial co-operation, of the oil and chemical industries; while those developing countries which have a sound industrial infrastructure tend to direct their choice to industrial activities characterized by high technical complexity and production performance.

33. On the basis of a global aggregation of particular inputs, it was found that the enterprises in developing countries participating in tripartite industrial co-operation projects relied on their foreign partners principally for the supply of machinery and equipment and subsequently for project engineering, transfer of technology, assembly production and civil engineering. The sample clearly demonstrates the complementary nature of the specific contributions of the Eastern European and the Western partners in tripartite industrial co-operation projects. With respect to investment goods and components, participation is at the same level although the socialist partners acted as subcontractors three times more often than the enterprises of developed market economy countries. A similar ratio in favour of the Western partner appears with respect to project engineering, the comparative concentration of Western input being even higher concerning transfer of technology. Conversely, there seemed to be a characteristic concentration of the contributions by the socialist partners as regards civil engineering and assembly production. From the viewpoint of the contractual mechanisms used, the socialist partners are more responsive as regards arranging for direct compensatory repayments.

34. Out of the 23 tripartite industrial co-operation contracts for which a consortium leader was identified, Eastern European organizations appeared about twice as frequently as Western enterprises. However, when contributions were calculated as a percentage of the total cost of each project, the sample indicated that only 25 per cent of Western contributions were one-fifth of the total project cost or less, compared with 55 per cent for Eastern European partners and 75 per cent for the host developing country.

Chapter III

MOTIVATIONAL FACTORS

Public and private sectors

35. In many developing countries, the capacity to mobilize resources seems to be a major criterion for determining the respective roles ascribed to the public and the private sectors. Although many development plans do not reveal the precise contribution of the public sector in industrial development, an analysis of planned investment by public and private components in selected developing countries for which data were available 1/ has indicated that the public component accounts for more than one-half of the planned investment in manufacturing in one out of eleven countries, while the public component in total investment, according to current plans, account for more than one-half in twelve out of a total of thirty countries. Comparatively speaking, the role of the public sector is especially large in "key" industries, although the degree of government ownership or control in any particular branch or unit varies in individual developing countries and at different periods of time.

36. Often the impact of the public sector is predominantly indirect, and makes itself felt through the institutional, financial and promotional framework within which the private enterprise is to develop its activity as well as in the establishment of infrastructural facilities. In some developing countries, the main channel of government initiative and inducement is through official organizations, usually having an autonomous or semi-autonomous character, such as general development or industrial finance corporations. Although the socialist countries of Eastern Europe may show a preference for co-operating with the public sector, and the developed market economy countries for dealing with private enterprises, the identified cases of tripartite industrial co-operation demonstrate that the mechanisms of such forms of co-operation at the enterprise level are flexible enough to adapt both to the public and the private sectors of the interested developing country.

Basis of the tripartite relationship

37. As far as can be determined, the initiative leading to the establishment of tripartite co-operation contracts can originate from any of the three sides. In several instances, following an initiative by officials or entrepreneurs in a developing country, the enterprise of the industrialized country which was contacted recommended that it would be appropriate to seek the contribution of an Eastern European/Western enterprise with which it had already worked, because for example, its particular specialization, or because national production specialized in a selected range of product components, or because, production capacity was already committed, or in view of the technology involved.

1/ United Nations, "The role of the public sector in promoting the economic development of developing countries"(E/5690/Add.1), table 9.

38. An illustration of this is the case history of a chemical plant under construction in Morocco : the consortium leader (an enterprise in the Federal Republic of Germany) had been co-operating with a Polish partner in respect of similar installations both in Poland and in the Federal Republic of Germany. On the basis of this experience, the consortium leader included the Polish enterprise among the contributors required for the implementation of the Moroccan project. Incidentally, such co-operation led to the negotiation of a further long-term contract under which the Polish party will be providing raw material against repayment by the Moroccan enterprise in the resulting intermediate chemicals. In another case, co-operation was sought as a consequence of further studies which had shown that the profitability of a given project in a developing country made it advisable considerably to increase the planned level of new production, in the expectation that the socialist partner would import the additional output. In still another, it was found that the Western enterprise sought the co-operation of an Eastern European partner because it found it possible to assign technicians to the developing country. On the other hand, the rapid implementation of industrial projects in developing countries - sometimes included under long-term bilateral intergovernmental agreements - has motivated tripartite industrial co-operation in instances when the acceleration of the industrialization process in developing countries was such that it outpaced the domestic planning of capital goods production for export in the socialist countries, or in cases when a developing country was seeking to maximize the foreign aid component over and above the credit provided in such long-term agreements.

39. The fact that enterprises approached with a specific proposal for undertaking an industrial project have recommended that the work should be executed jointly through East-West co-operation has often been prompted by general inter-enterprise/organization co-operation agreements providing for joint exploration possibilities and for joint bidding, planning and construction in respect of industrial projects at home as well as abroad and especially in the developing countries. 1/ In general, inter-enterprise consultations between particular Eastern European and Western firms have reportedly been motivated by a desire to maintain and possibly extend market positions in the respective country markets over the medium and long term. 2/ The history of a sizeable project being implemented in Venezuela with the co-operation of a Hungarian enterprise, together with sub-contracted contributions from Austria and the United Kingdom, provides a characteristic example of the intertwined structure of international industrial co-operation. In fact, the collaboration between

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1/ One such example is the agreement between the Vöest-Alpine A.G. of Austria, and the Industrial Iron and Steel Association and "Centrozap" Foreign Trade Association of Poland.

2/ Since 1973, Poland has been the largest foreign steel market for a State-owned concern in the Federal Republic of Germany. It was specifically indicated that in such circumstances it is only logical for that concern to consult systematically with its Polish clients about possible joint projects in and with the developing countries.

the Hungarian and the Austrian enterprises had been indirectly prompted by a co-production and specialization contract that was in force between the latter firm and another Hungarian enterprise in the same branch of industrial activity.

40. In the case of road vehicle production in Iraq, tripartite industrial co-operation began when Iraq decided to solicit tenders for the extension of the range of products manufactured by a joint venture, in which a French and a Swedish enterprise co-operated and the offer of Hungarian enterprise was accepted. Indeed, close technical engineering co-operation between the three foreign enterprises was required since the new product incorporated inputs already manufactured by the joint venture. Such co-operation, which involved certain engineering modifications, was particularly necessary since the Iraqi producer could not guarantee the manufactured durable goods unless the foreign partners undertook to co-operate. A similar requirement was reportedly involved in current negotiations concerning the development of a special steel project in Yugoslavia. In another case the initiative was taken by an enterprise which had commercial relations, in the capacity of import agent, with enterprises in a socialist and a developed market economy country.

41. However, most of the identified cases of tripartite industrial co-operation stemmed from an assessment by the responsible authorities or firms in the developing country of comparative factors of strength as reflected in competitive bids. Until the early 1960's, in most developing countries, the enterprise or State agency which was inviting international bidding was legally bound to select the lowest bid ensuring fair quality. However, in more recent years, such bidding has come to be considered as the first stage of a more sophisticated process, designed both to improve the initial offers and to take advantage of a combination of partial offers with a view to optimizing the final input. As a result, an increasing number of tripartite industrial co-operation projects have resulted from an appeal from the interested developing country to certain enterprises, selected after the initial bids, to jointly present a more economic offer. Furthermore, although the composition of certain joint efforts for the carrying out of tripartite industrial co-operation projects may appear to be the result of fortuitous circumstances, the information obtained with respect to French participation shows that all the domestic firms which have contributed to such projects are among the prominent enterprises in industrial plant engineering abroad or in the export of machinery and equipment. In addition, the French companies concerned have generally acquired a measure of technological superiority in particular industrial activities, and derive a substantial part of their earnings from exports.

Complementarity

42. The seeking of more rational and effective uses of resources, including new technology, and the ensuing acceleration of international industrial specialization, were ranked in a leading position among the incentives identified for tripartite industrial co-operation. In the opinion of many Western enterprises, this motivation was based on the reduction of costs of the resulting

products marketed in the host country or in third countries. The cost advantages identified as deriving from arrangements for combining supplies of investment goods may be interpreted to reflect differential factor costs. In this context, it was stated that certain Western supplying industries have capacity problems, and are seeking supplementary capacity in order to meet time-schedules for carrying out the implementation of projects in developing countries.

43. Through the broadening of the scope of international co-operation the developing country may benefit from a higher degree of flexibility concerning the selection of the different technological elements and the modalities of their transfer. It was found that the issue of technology transfer as a motive for tripartite industrial co-operation is often interlinked with the balance-of-payments motive, in so far as the transfer of technology resulting from such co-operation can improve the quality of exportable production, and thus lead to increased competitiveness in foreign markets.

44. With respect to particular projects, the technology which was developed in socialist countries of Eastern Europe may be appropriate in meeting the simpler and less capital-intensive requirements of demand in the developing country and its region. Some Western firms pointed out that Eastern European enterprises, particularly in smaller countries, might be more innovative in adapting to host country requirements and thought that such ability favoured East-West co-operation in the developing countries. In this respect, some Western enterprises indicated that they were at a relative disadvantage vis-à-vis their Eastern European counterparts because of their high degree of specialization at the international level in specific industrial activities.

45. Tripartite industrial co-operation permits the negotiation of satisfactory arrangements in cases where the capital equipment technology applied by a socialist enterprise is subject to territorial restrictions imposed by the original licensor. In general, these restrictions apply to exports, with the exception of countries which operate special bilateral payments arrangements with the socialist countries in which case approval for the export of goods incorporating the imported technology is readily granted.

46. Securing a supply of raw materials and other essential inputs is a motive which is exercising a growing influence in favour of international industrial co-operation at the enterprise level, including tripartite industrial co-operation.

Aggregation of credits

47. While dependent upon the balance-of-payments status of each country, the question of the flow of foreign exchange was cited as a typical factor motivating the developing countries in particular. An initial motive for a tripartite industrial co-operation project can be the availability of foreign credits earmarked for international industrial co-operation. Specific case histories show that, in order to meet the foreign exchange component of relatively expensive projects, the host country has favoured the setting up of partnerships which, through the aggregation of available foreign credits can secure the necessary

financing. Similarly, in at least two clearly defined examples, the initiative was taken by the official credit agency of a Western country, which recommended the sub-contracting of a share of such projects to enterprises of socialist countries of Eas ern Europe, with the pr vision in one of these two cases that the socialist country would agree to finance its share.

48. It may be of interest to mention that some Western European countries have recently negotiated long-term financing protocols with developing countries, providing for the earmarking of concessional lines of credit and permitting the drawing of funds required for the implementation of tripartite industrial co-operation contracts from such credit facilities.

Institutional framework and mechanisms

49. A large number of developing countries are seeking to diversify their trade and economic relations and to introduce, where appropriate, new forms of international co-operation. Reportedly, tripartite industrial co-operation is considered by the developing countries to make it possible to satisfy these objectives and, at the same time, to secure the most appropriate inputs for particular industrial projects.

50. The survey found that intergovernmental action was one of the main factors influencing the development of tripartite industrial co-operation. Such action includes the negotiation of bilateral intergovernmental agreements which are designed to establish a framework for the development of international trade and industrial co-operation and influence decision-makers at the production level. Also influential are autonomous policy measures normalizing international trade and econommic relations between countries having different economic and social systems, which facilitate the extension of economic co-operation with the developing countries.

51. The requirements of East-West economic co-operation prompted the development of three complementary types of arrangements: bilateral intergovernmental agreements on economic co-operation - generally pertaining to industrial, scientific and technical co-operation; the general co-operation agreements

at the enterprise level, 1/ and specific contracts. 2/ The general inter-enterprise agreements are considered by Western firms as an instrument for co-ordinating their own production plans with the socialist countries five-year plans. During the enquiry some Western enterprises informed the secretariat that general agreements could serve as catalysts for the negotiation of tripartite industrial co-operation contracts as well. Indeed the identified East-West general inter-enterprise agreements concluded since 1973 included provisions for joint co-operation in third countries, namely the developing countries.

52. Compared with traditional trade agreements, bilateral intergovernmental agreements on trade and economic co-operation concluded between developing and socialist countries have the advantage of highlighting longer term perspectives pertaining to a broad range of sectors, with a view to facilitating the working out of concrete co-operation projects. However, unlike East-West co-operation agreements, specific references to industrial co-operation as such are rather rare in bilateral agreements signed between developing and socialist countries. This may be due to the fact that the forms of industrial co-operation applied in this context tend to be less advanced than in intra-CMEA and East-West industrial co-operation.

1/ Usually concluded for 5-10 year periods and renewable, the general agreements provide for the establishment of long-term guiding programmes of co-operation, as well as for joint institutional machinery to study concrete opportunities and negotiate particular contracts. In terms of micro-economic strategy, such general agreements offer to the partners the possibility of relying on reserve capacity without additional financing.

2/ While no estimate of the total number of co-operation agreements and contracts at the enterprise level are available, an aggregation of the figures published by the four socialist countries of Eastern Europe with the most extensive experience in this respect indicates that, by 1974, roughly 1,000 such agreements and contracts had been concluded with Western partners. In the report prepared in the Federal Republic of Germany for this project, it was mentioned that statistics available, in the first quarter of 1975, showed that firms of that country had concluded more than 350 long-term agreements and contracts with enterprises, organizations and other economic bodies of the socialist countries. Data released by the Centre for Development Planning, Projections and Policies shows that if contracts at enterprise level are added to intergovernmental agreements, the annual average of bilateral industrial co-operation arrangements signed between the developing and the socialist countries of Eastern Europe during the period 1973-1974, is five times higher than that in 1970-1972 (United Nations, World Economic Survey, 1974, table 64, Sales No: E.75.II.1).

53. It was noted that agreements on economic co-operation between developing and socialist countries include provisions for the conclusion of long-term contracts on imports by socialist countries of raw materials and semi-manufactures so as to permit long-term planning of production and requirements. In addition, particular emphasis is placed on each government endeavouring to ensure that deliveries of machinery, equipment and plant are, as far as possible, offset by deliveries of manufactures and semi-manufactures produced by the industrial units built in the developing country in co-operation with the socialist party supplying the investment goods.

54. The institutional machinery set up by bilateral intergovernmental agreements on economic co-operation between countries having different economic and social systems can be a key factor in the attainment of the objectives of such agreements as well as for the extension and deepening of co-operation. In this connexion it was stated during the survey that the institutional framework for economic co-operation between pairs of countries could play an important role in the promotion of tripartite industrial co-operation. Depending upon the scope of each agreement, the institutional machinery established can include mixed commissions 1/ assisted by subordinate bodies, including sub-commissions and groups of experts. An example of such machinery is the seven working groups on foreign trade, mining and mining machinery, electronics industry, heavy and machine-building industry, ship-building industry and shipping, fisheries and agriculture, and science and technology, now functioning within the framework of intergovernmental economic relationships between India and Poland. These bodies are responsible for the creation of conditions conducive to the implementation of the policy measures that have been agreed upon, the identification of concrete possibilities for the development of co-operation, the examination of problems connected with such co-operation, the analysis of the development of mutual trade, and the elaboration of guidelines for the organization of more advanced forms of co-operation.

Market strategy

55. It appears that an important incentive for participation in such co-operation by enterprises from both socialist and Western countries is to develop new markets or to consolidate export flows, either to the host developing country or region or to third countries. In view of the cost of introducing foods into a new market, and of organizing reliable local service centres ensuring to customers a diversified range of spare parts and technical assistance, profitability considerations have been obliging smaller enterprises and countries to concentrate their commercial efforts on larger markets, particularly regarding the export of engineering products.

56. Reportedly, an important motive for Western enterprises is a desire to develop opportunities for bilateral and multilateral industrial co-operation with Eastern European partners, with a view to availing themselves of possible outlets

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1/ For a more detailed presentation of the role of mixed intergovernmental commissions in trade and economic relations among countries having different economic and social systems, see TD/B/452.

in the growing CMEA market, since it is considered easier to work for that market if some experience has been acquired in previous fruitful co-operation, for example in joint plant construction. Tripartite co-operation has thus prompted Western firms to share part of their operational functions, inter alia, as an indirect means of gaining, holding or extending medium and long-term market positions in the CMEA member countries. This particular motivation appeared to be stronger with respect to Western enterprises which had not yet established lasting relations of economic co-operation with the Eastern European market; it could also be construed as reflecting a tendency toward the extension of the range of individual enterprises participating in tripartite industrial co-operation projects.

57. Considerations of market strategy apply also to the views expressed in interviews in developed market economy countries regarding the effect of tripartite industrial co-operation in increasing exports of Eastern European manufactures to Western markets. The issue of improving the structure of East-West trade has been one of the prevailing preoccupations in recent years. Western enterprises interested in expanding their exports to the socialist countries of Eastern Europe appreciate that, even within a multilateral framework of international payments, their exports to such countries are constrained by the ability of, or the opportunities offered to, the socialist partners to expand their exports to the developed market economy countries. Other things being equal, it is the enterprises from developed market economy countries with a high concentration of industrial production and from the smaller developed countries with limited natural resources that show more inclination to be associated in multi-partite co-operation.

Chapter IV

PATTERNS, PROBLEMS AND SUGGESTED POLICY GUIDELINES

Forms of tripartite co-operation

58. The relations between the Eastern European and the Western partner within a tripartite industrial co-operation contract may take various forms. Moreover, the tripartite component of industrial co-operation may be confined to a particular phase of the development of a project. 1/ For example, the equipment supplied by one of the partners might be produced on the basis of a licence or know-how provided by the other. Alternatively, the equipment might be supplied by two or more partners, which combined their complementary production capacities within a tripartite project.

59. Enterprises in the developing countries participating in tripartite industrial co-operation arrangements, other than in an equity joint venture, have shown a preference for industrial co-operation contracts that are flexible, especially in terms of their duration. This preference, which may be explained on the grounds of changing world conditions and the unprecedented character of tripartite co-operation, was borne out, in a more general sense, by a similar preference on the part of several enterprises participating in such co-operation, to move progressively toward more comprehensive forms of international industrial co-operation. Some relatively recent tripartite industrial co-operation contracts include an explicit provision regarding the transformation of the original simple form of co-operation, if so desired by the partners.

60. In several cases, during the implementation of projects and before completing the initial stage of the particular arrangement, the partners agreed to extend and/or enlarge the scope of their co-operation through a supplementary contract or an addendum to the existing one. For instance, extensions of this kind have occurred repeatedly in the course of the erection of industrial plants, with a view either to extending their production capacity or to constructing additional units. 2/ Similarly, the successful carrying out of a tripartite industrial co-operation contract has on occasions induced renewed co-operation between the partners, sometimes based on inter-enterprise co-operation arrangements for joint production and/or marketing in third countries. It was reported that, thanks to the knowledge acquired through the implementation of a tripartite industrial project in India, a Hungarian organization specializing in machines and equipment for the chemical industry was prompted to seek continuous co-operation with the corresponding Indian enterprises with a view to the joint production at a more economic cost, of various goods which are required by neighbouring Asian countries in which Hungary has established a marketing network. Another example is that of a multipartite consortium composed of enterprises from France, Federal Republic of Germany, Poland and Yugoslavia for the construction of power plants.

1/ The establishment of an alumina plant in India involved, within a long-term comprehensive arrangement with a Hungarian enterprise, the delivery of equipment from Czechoslovakian, Hungarian and Indian enterprises, and of licences and know-how from Swedish and United States firms.

2/ Such examples include that of co-operative deliveries by Austrian and Polish enterprises to a petroleum refinery in the Congo.

61. Several general contractual models emerged from the tripartite industrial co-operation projects which were reviewed. In the case of a project involving three principals, it appears that the enterprise in the developing country may sign: (a) a single contract with a consortium leader who bears the responsibility regarding the foreign contribution; (b) one contract with each of the foreign partners acting jointly and severally; (c) a single contract with the two foreign enterprises, these being co-signatories; and (d) two separate contracts with each foreign partner. As a rule, contracts concluded in the framework of tripartite industrial co-operation do not provide for joint liability which is divided in proportion to the individual contributions.

62. With respect to the sub-contracting form of industrial co-operation, the opinion was expressed during interviews that this form of co-operation merited expansion since, in addition to increasing the scale of operation of enterprises in the developing countries, it would introduce these enterprises into foreign markets and would consequently help the export promotion efforts of the developing countries. It would also tend to increase their operational efficiency, especially where they had to produce according to the specifications of a foreign partner, and would strengthen economic complementarity between enterprises engaged in co-operative efforts. Nonetheless, the experience of some developing countries in sub-contracting, namely in the automotive industry, seems to have tempered attitudes toward this form of international industrial co-operation. The enquiry noted the tendency of principals in industrialized countries to enter into sub-contracting for the manufacturing of a given set of components with a number of enterprises in developing countries and then, according to developments and the evolution of their requirements, to vary the volume of orders entrusted to particular sub-contractors. This policy was reportedly designed to serve the requirements of the principal enterprise in the industrialized country concerned, for instance in order to offset incidental discontinuities in supply or delays by the enterprise in the developing country in shipping the contracted goods. Developing countries made reference, in this connexion, to the resulting sudden and continuous fluctuations in the production of such specialized sub-contractors, and the inherent effects of excessive price competition between sub-contracting enterprises in the developing countries.

63. The interviews conducted revealed that proposals for the equity type of tripartite joint venture might come from anyone of the partners, although not all the socialist countries of Eastern Europe are engaged in this type of venture. The Western firm might prefer it in the belief that it would be more profitable than untested alternative arrangements; the Eastern European partner in the expectation that it would contribute to the long-term stability of the co-operation relationship; the enterprise in the developing country in the anticipation that partial ownership would induce the foreign partners to ensure the transfer of advanced technology on a continous basis and that these partners would be more strongly motivated to ensure success.

64. In the socialist countries of Eastern Europe, which act on the basis of the State foreign trade monopoly, industrial co-operation contracts are concluded by State organizations or by the executive enterprises after authorization from the

competent authorities. These organizations and enterprises are independent juridical persons, owning property and exercising rights over the property placed at their disposal by the State and, as such, can bear rights and obligations toward foreign partners. Accordingly, the State as such is not responsible for the obligations of the organizations or the enterprises. 1/ In some socialist countries of Eastern Europe, the simultaneous signing of an international industrial co-operation contract by the organization (usually a foreign trade organization) and the production enterprise is required, taking into consideration that the organization is responsible for the obligations pertaining to international payments and the enterprise for the commitment concerning the production activity; their responsibilities in the case of failure on their part to perform the particular terms of the contract are determined accordingly. The active involvement of State organizations at the stage of negotiations and often at the level of execution of particular commitments, namely with respect to the financial aspects, was also apparent in certain developing countries.

65. There were three general findings pertaining to the contributions made by particular partners. As a rule, the national economy of the host developing country of the tripartite industrial co-operation project contributed to the erection and construction work. Some cases were detected in which a number of substantive operations were performed by local firms and experts, including the delivery of complex machinery and equipment and the assembling of machinery under the supervision of the suppliers.

66. However, the analysis of the data referring to actual tripartite industrial co-operation projects does not point to a significant relationship between the capacity of the industrial sector of the developing country and the contribution of this sector to the implementation of such co-operation projects. Two reasons are suggested for this. The first is a tendency to prefer the commissioning of turnkey plants, which are believed to ensure higher effectiveness, both from the viewpoint of ensuring the timely implementation of the industrialization targets of the developing countries, and from that of obtaining a performance guarantee by experienced foreign partners. In this connexion, the survey had demonstrated that guaranteeing the effectiveness of a new plant and involving the resources of the developing country to the greatest possible extent are not necessarily contradictory objectives. However, it should be emphasized that the incorporation of the contributions of a partner in the contractual guarantee covering the time schedule, performance of the production line, output quality and breakdowns before the expiration of the warranty, requires a profound knowledge of mutual capabilities. International industrial co-operation can provide the opportunity for such confidence-building.

1/ Such dissociation of legal responsibility is explicitly stated, for example, in Articles 5 and 6 of the Bulgarian regulations concerning the economic organizations, published in the State Gazette of 11 December 1970.

67. The other motive explaining preference for the maximization of foreign contributions seems to pertain to the foreign exchange constraints of the developing countries and the reluctance to allow for even the foreign exchange component required for the domestic production of machinery and equipment for such industrial co-operation projects. This general finding may, however, be qualified by the fact that some developing countries, having reached a relatively advanced stage of industrial development, commonly set a minimum share for the participation of domestic industry in projects requiring imported contributions.

68. While the involvement of the industrial sector of individual developing countries has generally been at a rather low level as viewed from the perspective of lasting co-operation between particular partners, the contributions by the Eastern European and Western enterprises have demonstrated a meaningful level of technical complementarity and effective integration for the materialization of such projects. In this respect, it should be emphasized that, as a rule, the joint effort of the Eastern European and Western partners applied through the entire range of stages up to the final phase of fulfilment of contractual obligations.

69. The evaluation of available experience in the area of tripartite industrial co-operation shows the growing importance acquired by development project studies 1/ undertaken with the co-operation of foreign partners from industrialized countries. Considered from the angle of the international division of labour, such contributions indicate a tendency on the part of several industrialized countries which are not importers of basic materials to specialize, within tripartite industrial co-operation, in economic activities characterized by a high degree of reliance on complex factors of production, namely, on the supply of technological inputs. 2/ A fairly large number of tripartite industrial co-operation projects provide, for instance, for the feasibility study or the consulting work to be assigned to the enterprise of an industrialized country and for the material contribution to be entrusted to a firm in another industrialized country. Allocating the particular contributions to a number of enterprises in countries having different economic and social systems may help to improve the fluidity of the international investment goods and services market.

Financing

70. The availability of foreign credits was listed 3/ as one of the motivations in favour of tripartite industrial co-operation as well as a factor shaping its geographical structure. It should be borne in mind that, depending on the nature

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1/ The concept of "development project studies" is understood to cover a comprehensive range of engineering studies aimed at optimizing capital investment. It applies to feasibility studies; pre-investment market surveys; and design of new production facilities involving both plant design and selection of machinery.

2/ It is significant that, according to the French factual review, the services sector had contributed to more than half of the total French input in tripartite industrial co-operation projects, while this sector represented in 1974 only slightly more than 4 per cent of the national export turnover.

3/ See para. 47 above.

of the partnership, the co-operating enterprises can only marginally supplement the financing of their particular contributions because of the magnitude of the production and technical assistance requirements involved in multilateral industrial contracts, as well as the fact that generally such co-operation takes several years to achieve the expected results. Experience has shown that even large industrial concerns or corporations seek sources of re-financing. Moreover, the survey indicated that those few enterprises which traditionally rely on self-financing take a short view of industrial co-operation and are keen to recover their investment abroad as soon as possible. The situation may differ as far as the enterprise in the developing country is concerned, and industrial co-operation can be partly or wholly self-financing, as in the case of a contract providing for compensatory repayment arrangements.

71. As indicated above, a criterion applied by some developing countries has been to maximize the share of foreign credits in the total cost of an industrial project, albeit often at the expense of the contribution by the national industrial sector. Despite the fact that the available information does not permit of an assessment of this preference in terms of "opportunity cost" at the national level, there would appear to be a need to facilitate the generation of multiplier and cumulative effects through tripartite industrial co-operation in favour of a wide range of industrial activities in the host country.

72. In general, the specialists reported that the financing of industrial co-operation carried out through tripartite arrangements can be complicated and can involve specific problems, depending upon the nature of the transactions and the prevailing circumstances in the interested developing country.

73. With respect to the supply of investment goods and related services, there is an essential difference between joint and separate settlements. In those cases where a contractual relationship for the supply of goods is established between the enterprise of the developing country and a consortium leader responsible for the contributions from the Eastern European and the Western enterprises, the consortium leader receives payments as the work progresses and is further responsible for pro-rated apportionments to the other contributors (joint settlement). At the opposite extreme - as for instance in the case of a developing country operating a surplus clearing agreement with a given socialist country, the latter being agreeable to compensating a current bilateral trade surplus against a share of the supply of capital goods, with the difference financed through long-term credits - the developing country may have an interest in separately settling the deliveries of the individual partners (separate settlement). Except in particular circumstances, the supplies and services of domestic enterprises are settled in the currency of the developing country.

74. The joint construction of two power stations in India, with the co-operation of Austrian and Hungarian enterprises was paid in rupees through the Hungarian-Indian clearing agreement and the socialist partner paid the other in Austrian Schillings. It is worth adding that this arrangement, which reportedly heightened the willingness of the Indian party to engage in this industrial co-operation venture was prompted, in addition to other considerations, by the fact that the

same Austrian and Hungarian enterprises had co-operated previously regarding the supply of a power station to Lebanon. In this connexion, an interesting case in East-West co-production and specialization, which could be of relevance to certain tripartite industrial co-operation contracts, involves a technique whereby the socialist partner pays for licences, components and the technical assistance needed for the manufacturing of machinery, with the contract stipulating that the outflow and inflow (through re-purchases by the Western partner) of funds must be in approximate balance.

75. However, it was found through the survey that payments clearing arrangements do not necessarily apply to industrial co-operation contracts. The facility to utilize balances on bilateral clearing accounts for the financing of the investment goods component of industrial co-operation contracts would increase the flexibility of those bilateral payments arrangements between developing and socialist countries which are maintained in view of their positive effects on the expansion of trade. In this connexion, it may be recalled that, during the meeting of the Group of Experts on Multilateral Payments Arrangements, some of the speakers from developing countries and socialist countries of Eastern Europe referred, inter alia, to industrial co-operation as a proper form for balancing bilateral claims. 1/

76. In assessing their experience in operating tripartite industrial co-operation contracts, Western enterprises mentioned occasional delays in the scheduled reimbursement of credits granted to the industry of the developing country. However, according to the managers interviewed, such reported delays were imputable to foreign exchange shortages of the Central Bank and not to the final user in the developing country which had normally deposited the funds in accordance with its commitments. This qualification is important in order to dispel any possible misunderstanding regarding the micro-economic soundness of such industrial co-operation projects.

77. The financial sources of tripartite joint ventures are shareholders' contributions, loans and overdraft facilities occasionally guaranteed by the foreign partners, and trading credit normally granted by sellers of equipment and material inputs. Enterprises from the socialist countries of Eastern Europe have shown a preference for meeting their shareholding commitment by means of a conversion of the value of the physical and services inputs they have provided for the realization of the project.

Credit constraints

78. Bank credit is the main source of financing tripartite industrial co-operation contracts. Regarding the contributions by the industrialized countries, financial resources are primarily provided for by bilateral intergovernmental credits, available on concessional terms and conditions. Commercial credits can be an

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1/ TD/B/284, paragraph 5.

additional source, but limited to projects or contract components requiring modest and rather short-term financing. There is sufficient evidence for stating that the network of tripartite partnership is influenced by the ability or the willingness of individual industrialized countries to allow credit facilities for the production and export of investment goods. Thus, other things equal, enterprises of major Western trading countries experiencing a balance-of-payments deficit seem to be a priori in a better position as compared with competitors from countries with a sound basic payments position. Similarly, market economy countries which have not yet established public credit agencies for the export promotion of capital goods through long-term credits may lag behind in reaping the benefits stemming from tripartite industrial co-operation arrangements.

79. In the absence of institutions specializing in the financing of multilateral industrial co-operation, rational solutions to particular aspects of international credit should be actively sought in view of the fact that the question of financing is one of the decisive factors influencing progress in tripartite industrial co-operation.

80. Despite the fact that international monetary liquidity is actually increasing at a pace about four times faster than ten years ago, the survey clearly shows that the expansion of tripartite industrial co-operation is being hindered by financing constraints. Furthermore, the survey generated a series of interesting suggestions concerning ways and means of securing a flow of financial resources on appropriate terms and conditions to make it possible to take advantage of the growing number of opportunities for tripartite industrial co-operation. In addition to factors which indirectly affect international industrial co-operation, such as market and price instability due to slackening economic activity and balance-of-payments problems in the developed market economy countries, or the priority attributed by socialist countries of Eastern Europe to the expansion and modernization of their industrial sector in the context of the CMEA Programme for economic integration, a number of specific factors which discourage tripartite industrial co-operation ventures were identified.

81. The shortcomings of the market economy banking system deserve attention, in view of the intrinsic capacity of this system to provide a considerable share of the international financial resources required for the expansion of the tripartite form of industrial co-operation. First, long-term lines of credit arranged through the public sector should be earmarked for major multilateral co-operation projects realized in the developing countries. Such credit availability could be confirmed in the framework of bilateral or multilateral intergovernmental agreements on economic co-operation negotiated with the socialist and the developing countries. Secondly, the special nature of tripartite co-operation projects calls for the adaptation, on the part of the executing banks, of the terms and conditions of credit to suit the particular requirements of each contract. The purpose of the credits used for the implementation of industrial co-operation projects is to bridge the gap between the time the investment inputs are commissioned and the period during which the plant gradually repays for itself. Therefore, bank credits should be granted for periods corresponding to the nature of the specific project to be undertaken, and the amortization schedule should correspond to the effective repayment capacity of the interested enterprise as reflected in the micro-economic plan which prompted the implementation of the tripartite project.

82. Generally, foreign components of up to 10 or 15 per cent can be included in equipment eligible for export financing extended by Western countries. 1/ It was pointed out during interviews in the Federal Republic of Germany that in the past serious problems might have arisen for the domestic enterprise if it had had to concede the export credit terms to the developing country for supplies obtained from a socialist country of Eastern Europe. As a result of the intergovernmental agreements concluded with socialist countries of Eastern Europe, the situation has changed and Eastern European partners can participate in projects which are assisted by bilateral export credits to developing countries. Moreover - and this is particularly relevant to tripartite industrial co-operation - suppliers of the Federal Republic of Germany may sub-contract to socialist partners for up to half the total order value of goods financed by export credits.

83. The promotional role played by the banking sector is frequently highlighted in the economic literature on the development of East-West economic co-operation. The survey has shown that banks have been helping in the organization of tripartite schemes as well. For example, a private French bank selected partners in that country and co-ordinated their contributions to a Pakistani industrial project implemented under the principal responsibility of a Romanian partner. However, it was pointed out that the Western banking sector specializing in long-term transactions is not yet adapted to the requirements of multipartite industrial co-operation between enterprises of Western, Eastern European and developing countries.

84. The formation of bank consortia on an international basis and with the participation of intergovernmental financial institutions could significantly ease the credit requirements for tripartite industrial co-operation projects. Such a pooling of resources could facilitate the securing of the substantive resources needed for the implementation of those projects which call for multipartite partnership. Tripartite industrial co-operation projects of direct interest to neighbouring developing countries could seek a contribution from regional development banks. Also, in view of the comparatively new character of tripartite co-operation, the participation of banking institutions could be favoured if the involvement of individual banks corresponded to a limited share of the financing required for each project.

85. The aggregation of credit contributions would also heighten the possibilities for a rational selection of the production partners. This is supported by a finding of the survey that the application by Western countries of more restrictive and selective criteria on export financing, induced by balance-of-payments difficulties, were considered to work in favour of the compounding of credit facilities from various sources, namely, from countries having different economic and social systems.

1/ Countries members of the EEC allow a 40 per cent foreign component from suppliers of other EEC countries, and a 30 per cent share for those of EFTA countries.

86. Intergovernmental financial organizations apply the principle of financing procurement originating in member countries' economies only. In this respect, only one case was clearly established whereby an intergovernmental financial institution tolerated, upon the insistence of the developing country beneficiary of the credit, that part of the funds be used for financing capital procurement from a socialist country of Eastern Europe which was not a member of the said institution. The opinion was expressed that, in view of the fact that World Bank credits have been an important source for financing large industrial projects in developing countries, the condition that such credits could not be used to finance supplies from most socialist countries curtailed the opportunities for tripartite industrial co-operation. 1/ More generally, in view of the expected shortages of supplies of investment goods for meeting the requirements of the industrialization plans of the developing countries, flexibility is warranted concerning the utilization of long-term concessional financing granted to the developing countries.

87. The expansion of petroleum export receipts has induced some oil-exporting countries to liberalize their foreign exchange systems. It was reported that this liberalization could be of importance to tripartite industrial co-operation. More generally, it was suggested that, as it develops, tripartite industrial co-operation could deliberately seek to attract a share of petroleum export receipts.

88. The survey established that it is generally felt that East-West financial arrangements and practices are relevant to tripartite industrial co-operation. First, because many of the innovative instruments introduced in the financing of East-West industrial co-operation can find an application in tripartite industrial co-operation. Secondly, because in particular cases the securing of appropriate financing arrangements for East-West projects can be a prerequisite for the extension of such co-operation through the involvement of enterprises in developing countries.

89. Export insurance 2/ is usually a prerequisite for extending a long-term credit. In this connexion, it can be reasonably assumed that the flow of financial resources to the developing countries would have been higher if the Western countries

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1/ This view was based, inter alia, on the experience of enterprises co-operating in the bidding for projects financed by the World Bank.

2/ Depending upon the policy applied by each individual developed market economy country, the export insurance which is arranged through the public sector machinery for purposes of export promotion covers a wide range of guarantees and warranties. Such underwriting used to cover political and commercial risks including, in particular, those of transfer and default of payment. Many such countries provide also exchange risk guarantees if the contracts are written in a foreign currency; lately, insurance against inflation has become available, such coverage being limited either by a percentage ceiling or by the components that can be used in computing the rise of prices. The survey has clearly shown that the generalization and extension of the coverage of export insurance could significantly stimulate the interest in international industrial co-operation of the comparatively smaller enterprises.

which provide export insurance had applied policies more adapted to the industrialization requirements of the developing countries. According to Western sources, reported through the survey, it appears that in several instances the funds required for components of tripartite industrial co-operation projects, which were considered to bear a high risk - e.g. civil engineering work in the developing countries with a small range of infrastructure facilities and which require foreign credit - were finally advanced by the socialist country.

90. In this respect, it would be necessary to provide, first, for the comprehensive application of export insurance irrespective of the country of delivery of the investment goods. 1/ Pending such extension of coverage, the involvement of a socialist economy through tripartite industrial co-operation can make it possible to secure financing for additional industrial projects in the developing countries, since Western export insurance facilities are freely accorded in the framework of East-West trade and economic co-operation. A second requirement is recognition of the fact that all forms of international industrial co-operation should qualify for the issuing of export insurance; 2/ a third, that the export insurance should apply throughout the period of life of the credit extended for implementation of the industrial co-operation contract; 3/ and a fourth, that the premium should be reduced commensurately with the lowering of the risk factor by reason of the specific characteristics of international industrial co-operation. Indeed, industrial co-operation and, in particular, contracts based on direct compensatory deliveries justify the application of privileged terms and conditions on the basis of sound economic criteria, namely, the reduction of the default of payment and transfer risks.

Pricing

91. With respect to the pricing issue, the enterprises interviewed were somewhat discreet. However, it was noted that one of the difficulties encountered has been in agreeing on the valuation of the respective partners' contributions,

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1/ At present, the beneficiaries of bilateral development aid programmes among the developing countries can rely on such export insurance provided by developed market economy countries.

2/ Reportedly, a number of insurance institutions refuse to extend guarantees and warranties, when for instance the obligations of the co-operating partner in the developing country are met by goods produced in the plant built under an industrial co-operation contract.

3/ At present the maximum terms for commercial and political risk vary from five to ten years; only in two Western countries does the coverage of these risks coincide with the period of the contract. The time coverage of the exchange risk is considerably shorter; understandably, the inflation risk is limited to the manufacturing period.

whether they consist of licences, know-how, trademarks and new technology incorporated in machinery and equipment, on the one hand, or the land, installations and external economies in the developing country. Reportedly, several deals were in jeopardy owing to lack of agreement on these issues. In some specific cases, the problem of valuation arose after the contract had been signed.

92. Generally, prices were stated to be linked to world market fluctuations. Reportedly, the enterprises supplying investment goods or production components have been entitled to adjust their prices to account for inflation, up to a pre-determined annual percentage ceiling. Yet, it was acknowledged that high rates of inflation in the Western countries have been a source of difficulty at the stage of contractual negotiations. The availability of insurance against inflation in a growing number of countries within the framework of public export credit facilities, as well as the recent decrease in inflationary trends, should help alleviate the risk of any differential being passed on by suppliers of investment goods.

93. The survey found that partners in the developing countries generally do not favour establishing fixed prices throughout the two phases of simple tripartite industrial co-operation contracts. Neither the mechanism of direct compensatory arrangements, nor the stability in the development of inter-enterprise industrial relations necessarily requires fixed prices. Considering that the process of adjustment to world prices favours rather than hinders the maintenance of international competitiveness among export-oriented enterprises that have entered into commitments under tripartite industrial co-operation, the specific advantage resulting from such co-operation should be sought in the stability of material flows provided for under such contracts. However, in a few cases of tripartite industrial co-operation providing for direct compensatory arrangements, the developing country did indicate a preference for the implementation of such co-operation on the basis of fixed prices.

94. In order to protect the interests of the developing countries and to avoid indirect discouraging effects on international commodity negotiations, it would be advisable for industrial co-operation contracts based on compensatory arrangements and providing for pre-determined prices to include a general provision whereby commodity pricing commitments lapse as soon as relevant international commodity stabilization programmes become applicable. In this connexion it should be borne in mind that the experience derived from tripartite industrial co-operation clearly demonstrates that, whatever the pricing commitments may be, a partner cannot continue to apply export prices substantively lower than prevailing world prices, because this could threaten the profitability of the enterprise or significantly affect the country's external revenue.

95. The survey has shown that, within the framework of joint equity ventures, profits are normally distributed according to the proportion of shares held by each partner; in all the cases reviewed for this study, after-tax profits are distributed by means of cash payments.

Technology

96. Industrial co-operation is considered to be an efficient way of transferring technology. Moreover, the growing importance ascribed by developing countries to an export-oriented form of industrialization explains why tripartite industrial co-operation is sought as a means, inter alia, of securing the transfer of efficient industrial technology.

97. The provision of technology by partners of industrialized countries is a common characteristic of the cases of tripartite industrial co-operation reviewed. Such transfer of technology is being effected principally in two major forms: (a) through machinery and equipment; and (b) by the transfer of technical, marketing and managerial know-how. These forms will be discussed separately below. Such transfer may be negotiated on a contract-by-contract basis or be secured through joint ventures.

98. The transfer of technology depends essentially upon the particular object of the co-operation. In the framework of the more elaborate forms of industrial co-operation, the developing country, in the first place, benefits in as much as domestic enterprises can participate in the erection of new plants and profit from the engineering of the foreign partners. Furthermore, the links of the new enterprise with local suppliers of inputs can help to promote a spin-off of technology to vertically preceding or related production stages. In turn, the process can generate external economies which will accrue to the new enterprise.

99. No instances of joint R and D in connexion with tripartite industrial co-operation were identified. However, it was reported that R and D with the participation of the enterprise in the developing country would seem to be a reasonable proposition during the preparatory stage of the industrial co-operation contract, as well as at a later stage of such co-operation, for the purpose of improving production and procurement arrangements. Another comment was that a more consistent combination of the advanced position in pure research of some socialist countries of Eastern Europe and of Western experience in industrial applied technology could widen the prospects for tripartite co-operation in the fields which respond to the fundamental demand requirements of the developing countries.

100. A case history involving a total of seven partners from six countries can serve to illustrate a process of chain reaction prompted by the seeking of original technology specifically developed for the requirements of developing countries and realized through the collective supply of production lines. During the first phase (1967), a Hungarian and an Iraqi enterprise began to co-operate in the development of appropriate technology for the production of liquid sugar, on the basis of dates, which eventually resulted in the construction of three plants in Iraq. The technology was further elaborated during the second phase (1971) in which the co-operation of enterprises from the Federal Republic of Germany and Switzerland resulted in the building of another two plants in Iraq and Iran. On the basis of further research carried out with two Austrian enterprises, (third phase - 1973), it became possible to process dates for the production of

alcohol, feed yeast and citric acid which prompted the construction of an alcohol plant in Iraq and negotiations for a large-scale feed yeast plant to be combined with a citric acid production unit. More generally, interested enterprises stressed that the stock of new technologies and production processes developed by tripartite co-operation were relevant for similar activities in other developing countries and consequently were an impetus for the extension of such co-operation.

101. Differences between the technical standards applied to manufactured and semi-manufactured products by different countries are often referred to as a problem hindering industrial co-operation. In this connexion, enterprises having direct experience stated that technical difficulties in the context of tripartite industrial co-operation were rare.

Marketing

102. In the light of information and assessments gathered during the survey, it appeared that the marketing incentive for entering tripartite industrial co-operation is often assigned different weight by each of the partners, and depends upon the objectives of each contract as well as the nature of the co-operation product. Although, frequently, the tripartite contract provides for mutual assistance through advice on the adjustment and development of products with a view to improving production and sales, the effective marketing advantages that could be provided by the foreign partners as far as export markets are concerned appear to have been taken into account only as a subsidiary or contingent factor.

103. During interviews it was made clear that in several cases the economics of the tripartite project were founded on the potential of the domestic market of the host developing country, and that the attempt to penetrate export markets was conditional upon the ability of the new production to resist exposure to international competition. In this respect, the registration of trade marks in the host country involving the payment of agreed royalties was considered to be one of the relative advantages sought by the developing country through tripartite industrial co-operation. A sizable tripartite industrial co-operation project which is now operational in Iraq involved a commitment by the Eastern European partner not to conclude similar contracts with enterprises located in a specific geographical region, and secured for the Iraqi enterprise exclusive export rights over the co-operation product in an even larger area. It can be argued that, in spite of its prima facie restrictive aspect, such a combination of exclusive rights, which is often a prerequisite for undertaking an important fixed investment, in fact has the effect of favouring effective international specialization within a more or less extensive geographical region.

104. However, in some cases the socialist partner guaranteed a market for goods produced in the new plant. The United States factual review prepared for the requirements of this project found that, in one out of four cases of tripartite industrial co-operation, the contribution of the socialist partner was believed to include marketing in Eastern Europe of the co-operation products.

105. A variety of possible forms for marketing the co-operation product were suggested in the information collected, such as marketing through the sales network of the partners; it was noted that such arrangements could also be expanded to include reciprocal representation for sales on the world market of other goods produced by the partners. Another form would consist in the creation of joint enterprises abroad for the marketing of the product of co-operation or of other goods produced by the partners. Given the views expressed by Western enterprises, it is suggested that the marketing dimension of tripartite co-operation is constrained by two factors. The first is that, in the context of delivery of capital goods to the enterprise of the developing country, which is at present the predominant form of tripartite industrial co-operation, the output of such machinery is not an input in the production process of the Western partner, so that direct compensatory arrangements could not be envisaged. 1/ Exceptions would apply to vertically integrated concerns. The other reason is that the shifting of production involving a high level of added value from the developed to the developing countries has not yet gained substantive momentum. Evidence resulting from the survey shows that it is through the transfer of selected industrial activities to the developing countries that tripartite industrial co-operation could count on extensively reaping the advantages attached to the experience and the distribution networks for marketing in the country or region of the Western partner.

Foreign expertise and training

106. Depending on the particular requirements of each project, technical assistance has been provided for: (a) expertise required during the installation and for the maintenance of machinery; (b) training of technical and engineering staff of the enterprise in the developing country, both locally through in-plant courses and in the countries of the foreign partners or in third countries; and, (c) the provision of experts who could not be recruited locally. On average, the contribution in the form of technical assistance extended from the second half of the first stage of the period in which the material part of the tripartite project was executed, up to, depending on particular requirements, one year or more after the completion of the installation of machinery and equipment.

107. The evidence collected suggests that all the industrialized countries have difficulties in detaching qualified manpower resources to the developing countries, although these were reported to be more acute in the developed market economy countries. The scarcity of technicians in the industrialized countries, which will be even more severely felt at the time of the upturn of the business cycle in the market economies, might have a constraining effect on the expansion of

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1/ The enquiry in the Federal Republic of Germany revealed that, as far as East-West co-operation is concerned, enterprises co-operate with Eastern European partners only in the sale of products which are obtained as a result of advanced forms of mutual industrial co-operation.

international industrial co-operation for two reasons: directly, because of the requirements for the installation, testing and initial operation of new machinery as well as for the technical training of personnel in the enterprise of the developing country; and, indirectly, because the work of technical experts abroad represents a valuable contribution in the promotion of mutual knowledge of the conditions prevailing in countries with different economic and social systems, as well as in the elaboration of more advanced forms of industrial co-operation at the enterprise level.

Managerial assistance

108. While the composition of the governing body (board of directors) in the tripartite joint ventures studied is proportionate to the contribution of each partner to the total capital, thus enabling all partners to exercise influence over the decision-making process, the organization of the effective management of the enterprise corresponds to the particular requirements of the enterprise, taking into account, on the one hand, the labour policy applied by the host country and, on the other, the capacity of the foreign partners to provide personnel on a continuous or revolving basis. In such circumstances, the contribution of the management of the joint venture could be considered to be a form of technical assistance. An illustration of this is a pharmaceutical joint venture established in Nigeria with Hungarian and Swiss partnership - the Nigerian and Hungarian partners each having 40 per cent of the capital and the Swiss firm 20 per cent - in which the arrangement provides for the Hungarian partner to be responsible for providing the managing director and the production manager of the tripartite joint venture, while the other members of the management are Nigerians.

Co-ordinating machinery

109. Practically, no project of international industrial co-operation can be implemented without involving a large number of production enterprises than the parties to the contract. Therefore, effective co-ordination of particular contributions is an important condition for the successful accomplishment of a project. It calls for a large measure of agreement and compromise on all relevant aspects including integration of technologies and interlocking of time schedules at each stage. It was pointed out that even for enterprises from the same country it is not always easy to carry out a sizeable industrial project abroad together. Evidently, such co-ordination is more difficult in the context of a tripartite industrial co-operation project, because of differences in the organizational and technical aspects of production and partnership.

110. The type and functions of the institutional machinery set up in order to co-ordinate the various contributions and thus ensure smooth implementation of the contract depend upon the principal contractual relations and the secondary arrangements concluded for carrying out a particular tripartite industrial co-operation project. In general, the interested enterprises establish joint co-ordinating machinery to: (a) supervise the execution of their commitments; (b) take action for solving any difficulties that may arise, including amicable

settlement of disputes with a view to preventing application of the arbitration rules of the contract; (c) offer a forum for the exchange and assessment of information pertaining to technological developments and to the market situation and prospects; and, (d) if necessary or desirable, consider possible changes in the contract or the extension of the field of their co-operation.

111. One point reported by several enterprises in Western countries is that it is sometimes difficult to work out tripartite industrial co-operation, especially more integrated forms of such co-operation, when relations with socialist partners come under different authorities and there is no central co-ordination machinery. In the socialist countries of Eastern Europe, only authorized enterprises have the right to be a principal in contractual relations governing industrial co-operation. However, the central role played by the foreign trade organizations in arranging multilateral industrial co-operation at the enterprise level may be catalytic in two respects. First, these organizations constitute a focal point for the initiation of contacts with a view to prospecting possible co-operation with the industrial sector of a given socialist country. Secondly, by their nature, they have the capacity to mobilize those production units which could appropriately respond to the particular requirements of each international project.

112. The survey noted the efforts undertaken by socialist countries' trade representations abroad, which are exploring possibilities, transmitting selected proposals to interested enterprises at home, and assisting these enterprises in the preparation of proposals and the conducting of industrial co-operation negotiations. Pilot efforts undertaken in some socialist countries seem to have brought encouraging results. For example, two organizations have been created in Hungary to explore potential opportunities for international industrial co-operation. In the Federal Republic of Germany, the Confederation of Trade and Industry (DIHT) operates a focal point for putting enterprises which seek co-operation, including socialist enterprises, in touch with one another. 1/

113. Another problem, which could be eased by means of more efficient co-ordination at the level of implementation of a tripartite industrial co-operation project, is that of unexpected delays in delivering contracted capital goods. For example, an enterprise referred to a lengthy delay in starting up production which caused obsolescence of the end-product, thereby losing targeted markets in third countries; eventually, it was found necessary to revise upward the share of production that was retained for the market of the host country.

114. It was pointed out that under the ruling of international competition and taking into account the effects of changing world economic conditions on the rate and order of implementation of industrialization targets in the developing countries, it is practically impossible to anticipate requirements for most

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1/ Between 1969 and 1973, DIHT has registered a 25 per cent annual increase in requests for international co-operation.

projects which could be carried out through tripartite co-operation. Therefore, in order to enable the socialist countries to participate in the implementation of tripartite industrial co-operation projects after their plans have been specified, it would be helpful if these countries could provide for adequate "marginal reserves" under their plans. 1/

Impact of trade and economic policies

115. Since the implementation of tripartite industrial co-operation is based on international trade movements and is carried out mostly through conventional trade procedures and channels, trade policy barriers, including those specifically affecting trade between countries having different economic and social systems, can be relevant to such co-operation, depending on the particular products covered by each industrial co-operation contract.

116. Developed countries which facilitate import/export flows under industrial co-operation arrangements that originate from or are produced for countries with which they have concluded bilateral intergovernmental agreements on economic co-operation, should automatically extend such treatment to tripartite industrial co-operation products, even if the bilateral commitment was undertaken only with reference to the country of one of the partners. Developed countries applying a GSP scheme or other preferential measures in favour of imports from the developing countries should provide for flexible application of the rules of origin concerning industrial co-operation products, particularly if the end product is manufactured by a partner from a developing country, taking into consideration that international industrial co-operation arrangements may be purposely designed to lead to a gradual reduction in the proportion of material inputs originating from industrialized countries.

117. As a rule, imports of materials for the industrial sector of the developing countries are not subject to restrictive policies. However, balance-of-payments difficulties frequently lead to the application of measures which hinder imports of such goods. Taking into consideration that industrial co-operation projects give the importing country the possibility of avoiding or minimizing the strain on its foreign exchange resources, through direct compensatory arrangements, it might be advisable to waive restrictions in respect of such projects. This would induce the negotiation of appropriate contracts which would facilitate the attainment of the industrialization targets of the developing countries.

118. According to customs and administrative regulations, the components for production are often described as non-investment end products and, therefore, subject to the import régime applied to consumer goods. This practice can

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1/ A Bulgarian regulation of August 1974 on the application of economic co-operation with foreign enterprises contains a specific provision to this end.

seriously affect industrial co-operation, first as far as production components are concerned; and secondly, as concerns the import of elements for further processing, namely on the basis of sub-contracting. In the case of tripartite industrial co-operation, such processed goods may be shipped to the third partner country rather than to the country of origin. On the export side, various conditions and procedures may be applicable, principally in order to satisfy exchange control requirements. It should be taken into account that, depending on the terms of the tripartite contract, the enterprise in the developing country may specialize in the production of semi-manufactures or of the end product. Such a concentration of manufacturing at particular stages of industrial processing is a prerequisite for taking advantage of the benefits of the scale of production. In order to ensure the continuity of the multipartite industrial process, special customs and administrative régimes are required whereby flows of goods coming under an approved industrial co-operation contract would receive different treatment as compared with traditional import and export transactions.

119. In addition, the survey has shown the disturbing effects of changing trade policies on the development of tripartite industrial co-operation. In one specific case, a generally satisfactory joint venture arrangement was jeopardized by a sudden change of the import régime in the interested developing country shortly after the contract was signed, which caused an unexpected rise in the cost of the capital goods to be imported.

120. A few countries - essentially socialist countries of Eastern Europe - have adopted specific legislation for economic, industrial, scientific and technological co-operation with foreign partners designed to determine the general framework for such co-operation and the activities which qualify for inclusion in it, as well as to create favourable conditions for its expansion. In particular, this legislation stipulates that industrial co-operation agreements and contracts are concluded for the purpose of developing new production capacities, and modernizing existing capacities, through a rational use of resources, with a view to meeting the requirements of the national economy and expanding export potential; introducing new technology; and improving the management and effectiveness of production by raising productivity and the quality of production. To this effect, the socialist countries encourage the conclusion of arrangements with foreign partners providing for reciprocal supplies of certain goods or services.

121. A recent enquiry by the International Chamber of Commerce 1/ has identified special measures applied by selected countries with different economic and social systems to facilitate the conclusion of industrial co-operation contracts. For

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1/ Report by the ICC Liaison Committee with the Chambers of Commerce of socialist countries: East/West Industrial Co-operation Agreements (document 555/35, Paris, November 1976). By courtesy of the ICC, the secretariat was able to use the information included in this report.

example, products manufactured under a co-operation arrangement with Western enterprises may be imported into Bulgaria and Hungary without any quantitative restrictions or customs duties. In this connexion, the secretariat survey found that socialist partners in international industrial co-operation may obtain additional financial resources within their country, through bank credits in national and foreign currency, for the performance of their obligations. In addition, it was reported that in Poland a system of financial incentives was being established within co-operating enterprises in order to activate implementation of the industrial co-operation contract.

122. Import quotas established by the Federal Republic of Germany, Italy and the United Kingdom regarding trade with the socialist countries of Eastern Europe either do not apply, or are appropriately revised on an ad hoc basis, in respect of the import of products supplied as a consequence of approved industrial co-operation contracts. Tariff reductions were recently authorized for certain industrial co-operation imports into the countries of the European Communities.

123. In view of the multi-faceted aspects of integrated industrial co-operation, the creation of favourable conditions to encourage such co-operation with foreign partners presupposes the adoption of a series of government policy measures, either through direct planning or through general incentive policies. First, it requires the effective application of stimuli in favour of industrial co-operation, and their harmonization with the regulations that could have an effect on such co-operation, since each stage of the industrial co-operation process has distinct features and is at present subject to separate regulations. It is necessary that this objective should be borne in mind whenever governments seek the adjustment of existing trade, industrial and economic policy measures. It is also necessary that each partner involved in international industrial co-operation should feel confident that the government authorities of the other partners will not promulgate restrictive measures while the industrial co-operation contract is still in the course of execution. Secondly, the promotion of a comprehensive approach to international industrial co-operation provides a strong case for attempting the gradual co-ordination at the multilateral level of industrial co-operation policies, in the framework of the implementation of the International Development Strategy and the Programme of Action for the Establishment of a New International Economic Order. Tripartite industrial co-operation projects should be entitled to benefit from the foreign trade, financing and fiscal policies applicable to the enterprises from the country eligible for the most favourable treatment among those involved in a particular venture.

124. Taking into account the "demonstration effect" in multilateral intergovernmental co-operation, a momentum could be imparted to effective policy measures in favour of industrial co-operation if, on the one hand, more industrialized countries granted such facilities and if, on the other, the developing countries encouraged the negotiation of industrial co-operation contracts for projects to be implemented on their soil.

General assessment

125. Country reports indicated that problems are bound to arise in a relatively new form of international co-operation and that therefore such difficulties should not be exaggerated. Occasionally, in view of its innovatory character, tripartite industrial co-operation has been the object of some mistrust which, however, was rapidly dispelled once the concrete materialization of the contract had demonstrated the soundness of the combined operation. It was also observed that, while the time required for negotiating a tripartite industrial co-operation project is long compared with bilateral industrial operations, this seems to be largely compensated by savings in the time that elapses between the signing of the tripartite contract and the project becoming operational.

126. In general, the initial results of tripartite industrial co-operation were assessed to have been encouraging. It would appear that the most successful cases were those which were treated as tripartite industrial co-operation projects from the feasibility study onwards. Reportedly, such experience suggests possibilities for the further development of tripartite industrial co-operation including the devising of new co-operative forms.

127. In 12 of the 19 cases reviewed in the United States factual survey, experience was found to be either highly satisfactory or to have encountered some problems which were not considered so serious as to have fundamentally affected the long-term profitability of operations. In three of such cases, experience to the date of the review was said to have been unsatisfactory.

128. Direct investment abroad is not necessarily the objective of all countries or enterprises participating in joint industrial projects or ventures. This is a point to remember when considering that some joint projects are still successfully developing; others were terminated with the expiry of the contractual relationship; while still others were transferred to public or private enterprises as a result of changes that had taken place in the regulations governing economic activity in the host countries. In some cases, the termination of the joint activity was imputed to unsuccessful business.

Chapter V

PROSPECTS AND SCOPE

129. The questionnaire used in the information-gathering exercise included questions on the prospects and scope of trade-creating co-operation at the enterprise level between the industrial sectors of developing, socialist and developed market economy countries. A notable discrepancy was noted between the reactions of enterprises that had been involved in tripartite industrial co-operation, and the reactions of those that had not been involved in such projects. In general, the latter's outlook was reserved, while the former thought that, if properly conducted, tripartite industrial co-operation could develop into a major area of international economic co-operation.

130. Industrial co-operation has the potential effect of contributing to mutual adjustments of production - either planned or spontaneous - which, in turn, strengthen intra-sectoral complementarity between the co-operating economies and hence have a lasting trade-creating effect. It is clear that the drive toward internationalization of production will multiply the number of industrial projects in developing areas, which, because of the combination of inputs required or their size, cannot possibly be implemented with the help of only one industrialized country. In this respect, it was reported that the rapidly increasing number of tender announcements for integrated industrial projects - inter alia, following the acceleration of industrialization by petroleum-exporting countries - calling for firm offers within shortening deadlines, favours the development of joint bidding practices, and points to the need for systematic involvement of more numerous enterprises in international industrial co-operation 1/.

131. So far, tripartite industrial co-operation has benefited from and contributed to the internationalization of production, essentially with respect to the supply of investment goods required by the developing countries. This means that tripartite industrial co-operation does not seem to have had as yet a decisive direct impact on the creation of lasting production interdependence among enterprises with the developing countries. However, some cases of tripartite industrial co-operation prove that a number of developing countries could effectively participate in the drive toward a genuinely comprehensive international division of labour in the industrial sector 2/.

1/ The secretariat report prepared in a major Western European participant country has shown that two-fifths of the identified cases of tripartite industrial co-operation involved the same three national enterprises.

2/ As exemplified by the general agreement reached in 1974 between a Polish organization and a Pakistani enterprise for the joint construction of sugar factories on a world-wide basis. This agreement, which provides that the Pakistani enterprise is to act as the principal supplier and the Polish organization as the subsidiary supplier, is particularly interesting in view of the well-established reputation of Poland in the construction of such sugar factories.

The possibility of participating in international specialization is open both to the more industrially advanced developing countries which have reached the limits of import substitution, and to the less advanced developing countries, since it enables them to shorten the traditional sequence of industrial stages and to include in their development strategy activities which would otherwise be beyond the limits of domestic resources and demand. The consolidated statistical picture 1/ shows that although the developing countries with comparatively stronger industrial sectors attracted a great number of tripartite industrial co-operation projects, there is no indication that such co-operation is confined, even in the short term, to a selected number of developing countries.

132. However, it is reasonable to expect that the degree of industrialization of the host country will play an important role in the orientation of the forms and modalities of tripartite industrial co-operation. Other factors are also liable to exert a strong influence on the direction of tripartite industrial co-operation in individual developing countries, such as natural resources, the priorities of development plans, foreign trade relations, and the ability of the developing country to contribute a more or less substantive share of the financing of particular projects. Moreover, it should be expected that international specialization will influence the composition of the input mix supplied for the implementation of tripartite industrial co-operation projects. For instance, the pattern of growing specialization in manufacturing, while probably leading to increased autonomy of industrial production at the regional or sub-regional levels, has the concomitant effect of reducing the capacity of national industrial sectors to provide the whole range of inputs required for carrying out most industrial development projects in the developing countries. In addition, many enterprises and specialists in industrialized countries pointed out that the growth and the shape of tripartite industrial co-operation depend, to a large extent, upon the conditions in the developing countries which apply to co-operation with foreign partners.

133. The notable divergence which was found between, on the one hand, the pattern of partnership by countries in tripartite industrial co-operation projects and, on the other, the direction of foreign trade by these countries with their traditional major partners, suggests that the growth and direction of international trade, because it is influenced by the development of international industrial co-operation, depends, to a notable extent, upon the introduction of appropriate industrial co-operation policies and the early restructuring of production in the industrialized countries with a view to meeting the expected demand of the industrial sector in the developing countries 2/. In the framework of the survey, it was striking to

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1/ See table above.

2/ The free fluctuation of exchange rates since 1971 has led to a substantive revaluation of certain currencies of Western countries against others. Secretariat interviews noted that, although the situation of the export sector of those countries whose currencies have been revalued varied according to the particular price elasticity of foreign demand for each product, some industries have seriously considered the possibility of transferring part of their production to countries with a more favourable cross-exchange-rate position.

discover the saturation of future production commitments affecting selected capital goods industries both in the socialist countries of Eastern Europe and the developed market economy countries, in spite of the current low level of economic activity in the latter group.

134. There was a marked convergence of the views expressed by many enterprises and government officials concerning the seeking of long-term stability in international economic relations in order to provide a sound basis for the organization of the development of industrial production. While some of those interviewed believed that the present instability was mainly temporary, others felt that enterprises should rather act on the assumption that such instability has become a constant feature of the world economy. This argument took into account the sharp fluctuations of prices on world markets and the sudden changes in the market situation of raw materials and energy. Reportedly, the developing countries, in assessing the opportunity cost of foreign exchange expenditure, tend to give attention not only to the autonomous effects of such investment on the balance of payments but also to the margin of risk involved as far as their future foreign exchange returns are concerned.

135. The officials, businessmen and specialists interviewed drew special attention to the prospects for and the need to develop long-term co-operation arrangements based on the development of basic commodities. Reportedly, such co-operation could create possibilities for the installation of sizeable industrial units close to the sources of raw materials and energy, and linked with the development of new and expensive technology, and would help to secure the required financing, which is often beyond the capacity of individual enterprises or countries. Support for this approach resulted from the consideration that production-sharing arranged through tripartite industrial co-operation could contribute to the stable supply to developed countries of raw, semi-processed and finished products. This approach is compatible with the growing concern of the developing countries for permanent sovereignty over natural resources, as reflected in the Charter of Economic Rights and Duties of States 1/ and the Declaration on the Establishment of a New International Economic Order 2/. New forms of business arrangements which have evolved in East-West relations concerning the co-operative exploitation of untapped natural resources may have considerable importance to the developing countries, including the ability of enterprises in socialist countries to attract international capital and technology under conditions which safeguard sovereignty and effective control over such resources.

1/ General Assembly resolution 3281 (XXIX)

2/ General Assembly resolution 3201 (S-VI)

Significance of some recent developments

136. The growing trade and economic relations between the developing countries and the socialist countries of Eastern Europe were viewed, during the survey, as factors which strengthen the prospects for tripartite industrial co-operation 1/.

137. The potential for the development of industrial co-operation opportunities can be illustrated by the fact that, by the end of 1974, Bulgaria had concluded about 70 bilateral intergovernmental agreements on economic co-operation, out of which 50 had been signed with developing countries. Although the picture given in the table in Chapter II above is probably less than comprehensive, the identification of only six cases of tripartite industrial co-operation involving Bulgaria suggests the existence of significant possibilities for tripartite industrial co-operation.

138. One of the Western country reports reflected the widespread opinion that the relatively recent character of tripartite industrial co-operation can be explained by the fact that such co-operation, and in particular the joint delivery of investment goods to the industrial sector of developing countries, is linked with the development of inter-enterprise co-operation between the Eastern European and the Western partners. In this connexion, it may be noted that, with few exceptions, the intergovernmental agreements on economic co-operation between developed market economy countries and socialist countries of Eastern Europe signed during the past twelve months have stipulated the intention of the contracting parties to extend their mutual co-operation in third countries through their competent organizations and enterprises. The actual functioning of joint commissions on co-operation in third countries - as in the framework of the long-term agreement on economic co-operation between France and Romania - shows that, with respect to some pairs of countries, this objective is more than simply a policy intention.

1/ Compared, in current dollars, with total world trade growth in the period 1963-1972 (167.5 per cent), trade turnover between developing countries and socialist countries of Eastern Europe, and between developing and developed market economy countries showed a lesser increase (119.4 and 138.1 per cent respectively), while East-West trade grew by 197 per cent. However, as far as imports of manufactures and semi-manufactures from the developing countries are concerned, their percentage share in the total imports of such products by the socialist countries of Eastern Europe increased from 2.56 in 1963 to 4.93 in 1972; the comparable share for such imports by developed market economy countries rose from 6.32 to 7.4. Since 1973, total bilateral trade flows among these three regions (developing countries and socialist countries of Eastern Europe, developing countries and developed market economy countries, and East-West) have been expanding at a quicker pace than total world trade (see United Nations, Yearbook of International Trade Statistics, 1972-1973 and Monthly Bulletin of Statistics, July 1975; the figures for imports of manufactures and semi-manufactures are secretariat calculations based on United Nations and national statistical data).

139. The signature at Helsinki on 1 August 1975 of the Final Act of the Conference on Security and Co-operation in Europe, which deals extensively with the issue of industrial co-operation, has opened up new prospects for international co-operation extending beyond he European framework. This is reflected in the introductory considerations of the Act and was confirmed by the presence at Helsinki of the Secretary-General of the United Nations.

140. The very fact that inter-enterprise relations between countries participating in East-West co-operation - which is the practical outcome of East-West bilateral intergovernmental agreements as well as of general agreements reached at the organization/enterprise level - have only begun to yield concrete opportunities is an indication of the largely untapped potential of existing East-West relations for the promotion of tripartite co-operation at the enterprise level with developing countries 1/. Even though some Western enterprises took a sceptical view about the prospects for expansion of tripartite industrial co-operation, there was general agreement concerning the existence of unutilized opportunities for East-West co-operation with the developing countries.

141. Country reports conveyed the opinion that a promising approach, at this initial stage of tripartite industrial co-operation, would be to include developing country enterprises as third partners in East-West partnerships which are already in operation, on the one hand, and to pay increasing attention to the economics of the tripartite dimension of industrial co-operation at the initial stage of consideration of new East-West industrial projects 2/.

Directions in tripartite industrial co-operation

142. The direction in which tripartite industrial co-operation could most successfully develop is influenced by the trends and objectives set in the implementation instruments of national or regional policies. In general, developing countries seeking to establish industrial co-operation relations wish to rely on foreign partners which will ensure them both expertise and experience 3/.

1/ At the ECE Seminar on the Management of the Transfer of Technology within Industrial Co-operation "it was pointed out that ECE member countries held most of the advanced technological know-how available in the world and that work on facilitating transfer of technology between ECE countries should be seen as a way of preparing for such transfers to be made to the third world" (see report of the seminar, document SC.TECH/SEM.3/2, 11 August 1975, para. 28).

2/ It was indicated that mixed East-West consultancy firms allow for the possibility of projects being carried out through consortia of Eastern European and Western enterprises when they engage in feasibility studies.

3/ In Nigeria, the Standards Organization is charged with responsibility for ensuring that goods produced in that country conform with the high standards laid down by the Organization. A similar policy is applied by Iraq.

Reportedly, this objective is consistently pursued by the developing countries which attribute priority to an outward-looking form of industrialization. The creation of international industrial organizations (associations) in the framework of the CMEA Comprehensive Programme of Socialist Economic Integration broadens the range of possible partners for the implementation of large-scale international industrial co-operation projects. The appraisal of the orientation of the industrial sector of individual developing countries or regions by prospective industrial co-operation partners can be facilitated by the preparation, and availability to interested foreign enterprises, of macro-economic plans indicating the expected development of major branches of industrial activity.

143. There is no clear trend in the developing countries concerning the role of direct foreign investment in the promotion of domestic economic development and industrialization. The 1974-1975 period witnessed a wide variety of policy developments: some countries took action to limit the involvement of foreign enterprises in their national economy, while in others a change of policy direction could be noted towards the encouragement of conventional or new forms of direct investment.

144. Depending on the policy of the host country, tripartite industrial co-operation, because of its flexibility, can act as a catalyst in securing direct foreign investment, supplementing long-term foreign capital investment, or promoting alternative arrangements to conventional foreign investments. One general finding revealed by the survey is that Western, and in particular United States, firms are becoming increasingly aware that the arrangements and advantages they have been seeking through equity participation in ventures abroad can often be secured without ownership rights. In this connexion, an interesting innovation was made in the Bulgarian Decree on Economic Industrial and Technological Co-operation of 12 June 1974. Under this Decree, the foreign partner participating in an industrial co-operation project is entitled to obtain the incremental part of the realized profit corresponding to its specific contribution to the project. The financial advantage accruing to the foreign partner may take the form of production sharing, cash payment or could even be balanced through the joint execution of a development project in a third country.

145. It appears from the survey that, in general, participation in tripartite industrial co-operation is of particular relevance to industrial sectors, and attractive to enterprises of industrialized countries which, by reason of a high degree of specialization or the uneven development of their manufacturing activity, rely on an active import/export trade in manufactures and semi-manufactures as well as on international co-operation for the delivery of industrial equipment. In addition, those industrialized countries characterized by concentration of manufacturing production may be in a more advantageous position as regards providing technical expertise to the developing countries.

146. According to the survey, the enterprises of smaller industrialized countries have a comparative advantage in so far as they tend to be competitive in the production of smaller quantities and in production of capital goods that are designed according to the effective requirements and the particular specifications of the importing country. However, this may not be the case with those smaller

Western European countries which have traditionally concentrated their efforts on the preservation of technical leadership in highly specialized and quantitatively limited lines of industrial production. This was attributed to production cost and in some cases to the actual industrial input requirements of the developing countries.

147. The limited amount of international competition that exists with respect to certain products and the disadvantage in which some small and medium-scale market economy enterprises find themselves as regards expanding their activities, owing to the dominant position occupied by major firms, including transnational corporations, provide a motivation for the negotiation of appropriate forms of production integration and joint marketing. It was noted in interviews carried out in socialist countries that small and medium-scale Western enterprises were considered to be potentially the best partners, as these enterprises, which specialize in the production of certain groups of products or product components, can better adapt to third market conditions and are more open to co-production as a means of increasing the scope of their activities. This results from the fact that such specialized enterprises are necessarily involved in a co-production process in their own domestic economy.

148. Some enterprises in the smaller Western European countries have already established joint ventures in developing countries. Usually their production capacity has been planned to satisfy the absorptive capacity of the domestic markets. Enterprises having a stake in such joint ventures mentioned that the addition of a sales outlet in the socialist countries could be a motive for the expansion of production capacity through the association of a socialist third partner.

149. The survey revealed that some market economy enterprises which seem to be well suited to tripartite co-operation projects do not welcome industrial co-operation with foreign firms as a matter of principle; such enterprises have been applying the policy of acting through their own subsidiaries, to the exclusion of third partners. However, the survey, together with other information which has come to the knowledge of the secretariat, generally supported the indication 1/ that there is a growing tendency among Western firms to select, domestically and internationally, those suppliers and customers who are willing to engage in long-term and stable business co-operation in order to reduce the risk involved in investment planning.

150. On the other hand, a clear evolution can be noted in respect to the industrialization requirements of the developing countries. For instance, developing countries have gradually replaced demand for turn-key plants by demand for the combined supply of plant and guaranteed output. According to government officials of Western countries, exporters of capital goods have been advised to be prepared to meet requests from developing countries for the supply of plant jointly with output and export market guarantees.

1/ TD/B/490/Supp.1, para. 87.

151. In assessing the results obtained through the country factual reviews, it appeared that different weight is attributed in the various countries to the various actual and potential motivations in favour of tripartite industrial co-operation. Notwithstanding these differences, it is significant that the country specialists were unanimous in reporting that there was no major obstacle which hindered the development of tripartite industrial co-operation. What is more, it was found that most of the motivations reflected in the present study were durable and likely to become stronger. It was suggested that the differences in the importance attributed to the particular motivational factors involved reflected the differences in the capacity of enterprises to adapt to current business conditions which require a new generation of enterprise personnel capable of covering a broad range of micro- and macro-economic managerial, marketing and financial aspects of industrial activity. Furthermore, it was pointed out that the ability to take advantage of possibilities for co-operation is also conditional upon the increased dissemination of information on industrial co-operation among the financing community and the shareholders of the Western enterprises which do have the ability to participate in co-operation arrangements.

152. The issue of tripartite industrial co-operation highlights the need to improve the conditions of international co-operation at the enterprise level with the developing countries by means of a long-term, integrated and global approach to the policy objective of accelerating a rational international division of labour. In the past, international specialization has progressed as a result of immediate problems that required domestic production adjustment. The opinion was repeatedly expressed, during the secretariat interviews, that the experience gained in the implementation of tripartite industrial co-operation showed that a definite turning-point had been reached concerning the effectiveness and viability of this form of co-operation. It is believed that an improvement in the transparency and fluidity of the international industrialization market will favour a more rational pattern of inter-enterprise multilateral co-operation and greatly enhance the role of such co-operation in the expansion and the strengthening of the industrial sector in the developing countries.

Chapter VI

POSSIBLE FOLLOW-UP ACTION

153. It may be significant that the country reports discussed concrete suggestions on ways and means of facilitating the development of tripartite industrial co-operation. A widely shared opinion was that the solution of the difficulties identified or the application of specific stimuli require action over the long run and that it would be unrealistic to rely on short-term initiatives in favour of tripartite industrial co-operation. Furthermore, it was pointed out that the promotion of this issue requires solutions to be found to specific problems, rather than general contributions to a feasibility approach on tripartite industrial co-operation. Follow-up work is needed in particular at the empirical, policy-formulating and policy-implementing levels. At present, there is virtually no institutional machinery available to promote the development of industrial co-operation on a multilateral basis between countries having different economic and social systems. The survey indicated that the achievement of rapid progress in the field of multilateral industrial co-operation is largely conditional upon the devising and the creation of appropriate machinery for that purpose.

154. The lack of reliable and specific information was considered by the entrepreneurs interviewed to be one of the major impediments to the development of tripartite industrial co-operation. A significant finding was that there is a lack of information not only on existing opportunities for such co-operation, but also on the actual status and the experience of tripartite industrial co-operation. In this respect, reference may be made to the statement by a Western enterprise having considerable experience in the implementation of tripartite industrial co-operation projects, to the effect that it wished to avoid providing information on its accumulated knowledge which might benefit its competitors, and to the finding reported in all the developed market economy country reports that several potentially interested enterprises - including the confederation of producers in one of these countries - had never heard of the existence of tripartite co-operation in the developing countries.

155. It has been emphasized that there is a need for greater dissemination of information on aspects relating to the promotion of co-operation with developing countries, such as intergovernmental agreements on economic co-operation and general inter-enterprise agreements. There is also a need to review the outcome of tripartite co-operation, and the trade and economic conditions relevant to such co-operation. 1/ Pending the creation of appropriate channels for the circulation of information concerning opportunities for collaboration, the existing instruments for international co-operation between countries having different economic and social systems could significantly assist the developing countries in their efforts to secure suitable partners for the execution of particular development projects. General co-operation agreements at the producer level may

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1/ The survey disclosed that insufficient knowledge of market conditions in developing countries was a problem shared by the socialist countries of eastern Europe and several developed market economy countries, which cannot rely on experience from long traditional relations with some developing countries.

be cited as an illustration of such possibilities which are of particular significance in encouraging the participation of the smaller enterprise in international co-operation.

156. In addition, the findings of the survey point to the need for further analytical work on the goals and purposes as well as on the conditions on which mutually acceptable multilateral co-operation could be based. In turn, this points to the need for continuous and systematic identification of problems and study of possible pragmatic solutions. Case reviews of tripartite industrial co-operation have proved to be a useful instrument for understanding the features and possibilities of such co-operation; consequently the factual approach is an important component in a systematic analysis of the issues involved. Subject to the decisions to be taken by the Board and the Conference in this area, the secretariat would be in a position to use the material gathered more exhaustively, together with the additional flow of information it is receiving through the channels established for the 1974/1975 information-gathering exercise.

157. The secretariat could provide assistance in the elaboration of legal instruments at the national level and of institutional and technical instruments at the international level, which should correspond to the actual dimension of requirements. Furthermore, it could substantively contribute to the promotion of tripartite co-operation through the preparation of appropriate guidelines for the drafting of contracts. Work on the elaboration of such guidelines should not be construed to indicate the advisability for the development of a compulsory or even a voluntary standard contract. On the contrary, the potential of multilateral co-operation, and of its tripartite form in particular, could be fully realized only if the interested parties have the latitude to apply a flexible approach concerning the form of such co-operation as well as the particular terms and conditions included in the contracts. The aim of such work would be to ease the procedure for the negotiation of co-operation contracts and thus to facilitate the proper implementation of such contracts. The provision, upon request, of advisory services to enterprises negotiating or envisaging the establishment of co-operation arrangements could be an issue for consideration at a later stage.

158. The initiation of specific research work to clarify the goals, purposes and conditions of such co-operation, as well as on a practical framework for the preparation of tripartite contracts between enterprises of countries having different economic and social systems appears to be required. At the same time, it would be necessary to ensure effective co-ordination with such other work on the formulation of international legislation which, when adopted, would be relevant to tripartite co-operation. The experience of the ECE in trade and economic co-operation between countries having different economic and social systems, and co-operation with UNIDO as far as the industrial aspects of tripartite co-operation are concerned, would be valuable in this respect.

159. In the framework of the implementation of this particular project, the secretariat established useful contacts with research groups working in related fields, and encouraging possibilities would appear to exist with a view to co-ordinating individual efforts with a decentralized multi-faceted research programme. There would appear to be reasonably good prospects for securing a consolidation of various related research projects in order to share the yield of a broader and forward-looking programme.

160. The survey brought evidence that, in addition to analytical research, there is a demand for the training of personnel on the management of international co-operation. Such activities could benefit from new programmes and appropriate adaptation of existing training in related fields provided through UNCTAD, other United Nations organs and specialized governmental and non-governmental institutions.

161. The evaluation of the economics of emerging opportunities as well as the implementation of various multinational co-operation projects call for macro- and micro-economic decisions. In these circumstances, it would be helpful to organize at periodic intervals, within the framework of UNCTAD, multilateral meetings of decision-makers with the participation of government experts and representatives of the business sector with a view to reviewing experience and problems and to assess future possibilities. Such meetings could also serve as forums for consultations on appropriate forms of multilateral co-operation with respect to which credits from traditional or new sources could be made readily available.